AR59

TrizecHahn

A Real Estate Growth Company

1997 Annual Report

TrizecHahn Corporation is one of the largest and most broadly based public real estate companies in North America. With $6 billion in assets, it is a financially strong, entrepreneurial, growth-oriented company. TrizecHahn currently owns, operates and develops a portfolio of superior office properties in the U.S., Canada and Europe, and super-regional retail centers in the U.S., comprising 66 million square feet overall.

TrizecHahn was created in the fourth quarter of 1996 from the merger of Horsham Corporation, a major Canadian public company, and Trizec Corporation Ltd., a leading real estate company with more than 30 years of development and operating experience.

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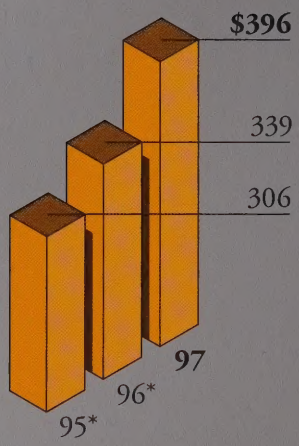
At TrizecHahn, our mandate is to realize superior financial returns for our shareholders by maximizing the value of our strong asset base and by investing in new growth opportunities, primarily in North America, as well as abroad. By combining an aggressive entrepreneurial drive with a highly disciplined financial strategy, TrizecHahn has become pre-eminent in the North American real estate industry.

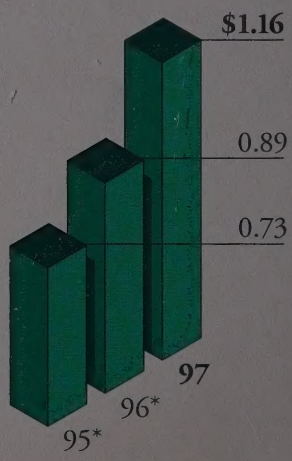
RENTAL INCOME

(U.S. $ millions)



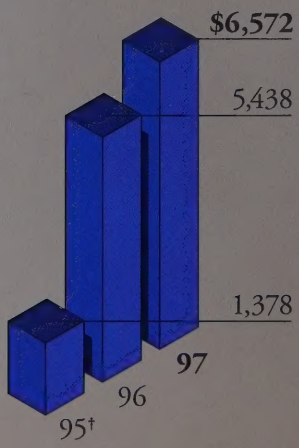
CASH FLOW FROM REAL ESTATE OPERATIONS

Per Share, Fully Diluted (U.S. $)



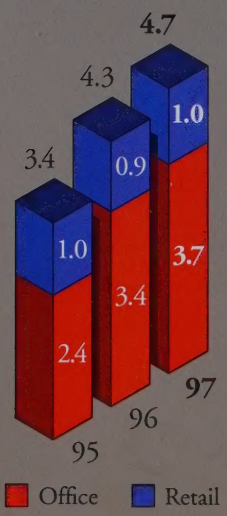
TOTAL MARKET CAPITALIZATION

As at December 31 (U.S. $ millions)



NEW LEASING AND RENEWALS

(Sq. ft. millions)



* Pro Forma

† Horsham Corporation

1997 Highlights

Major Achievements

- Acquired $1 billion of high-quality office properties with substantial growth potential
- Announced over $600 million of new retail/entertainment development projects, including Hollywood and Highland in Los Angeles, CN Tower in Toronto and Desert Passage at Aladdin in Las Vegas
- Leased 3.7 million square feet of office space and 1 million square feet of retail space
- Sold Clark USA, Inc. in November for net cash of $116 million, and with the subsequent sale of our unencumbered Barrick stake in February 1998, transformed TrizecHahn into a pure real estate company
- Raised an additional $1.3 billion of capital (including the Barrick transaction) to fund our growth
- Completed a $150 million strategic international acquisition, further establishing TrizecHahn's presence in Europe

Financial Highlights

(U.S. $ millions, except per share amounts)	1997	Pro Forma 1996	Change
Rental Revenue	**$ 714**	597	20%
Rental Income	**396**	339	17%
Cash Flow from Real Estate Operations	**176**	126	40%
Per share, fully diluted	**$ 1.16**	0.89	30%
Net Income	**48**	25	92%
Per share, basic and fully diluted	**$ 0.32**	0.18	78%
Real Estate Assets	**$ 5,130**	3,813	35%
Total Market Capitalization	**6,572**	5,438	21%

To provide a meaningful year-over-year comparison of TrizecHahn's real estate operations, actual financial results for 1996 are presented on a pro forma basis as if the merger which created TrizecHahn in the autumn of 1996, had occurred at January 1, 1996.

All dollar amounts shown in this report are in U.S. dollars unless otherwise noted.

1600 Smith, Houston, Texas

Esperanté Office Building, West Palm Beach, Florida

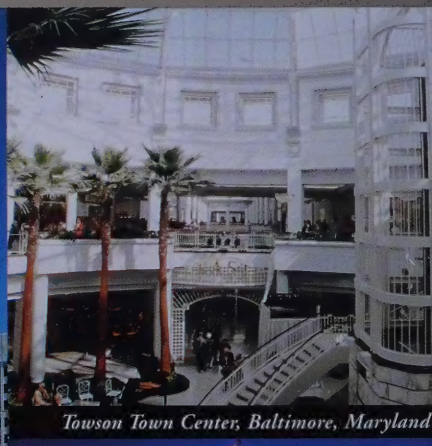
Los Cerritos Center, Cerritos, California

The Grace Building, New York, New York

TrizecHahn owns, manages and develops a superior portfolio

Renaissance Tower, Dallas, Texas

Colony Square, Atlanta, Georgia



Towson Town Center, Baltimore, Maryland

Horton Plaza, San Diego, California

M.W. Kellogg Tower, Houston, Texas

Valley Fair, San Jose, California

Bankers Hall, Calgary, Alberta

Place Ville Marie, Montreal, Quebec

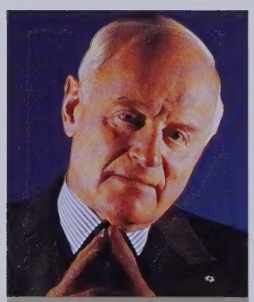
of office properties and retail/entertainment centers.

Scotia Centre, Calgary, Alberta

North County Fair, Escondido, California

Royal Centre, Vancouver, British Colombia

To our shareholders



PETER MUNK

GREGORY C. WILKINS

TrizecHahn began 1997 with great momentum, which continued throughout the year. The merger that created TrizecHahn in the autumn of 1996 established a platform from which to achieve our goal of becoming a well-capitalized, growth-oriented real estate company. Our timing was good. The real estate fundamentals, particularly in the office sector, were very attractive and remain solidly intact. Stable economic growth, corresponding business expansion, and associated job growth and low interest rates provide exceptional opportunities to create wealth in the real estate industry.

Our 1997 results demonstrate the positive impact of the acquisitions, new developments, and operational improvements that we have undertaken. Cash flow from real estate operations per share increased by 30% to $1.16 or $176 million. This was driven by an increase in rental income of 17% to $396 million, despite the offsetting effect of dispositions.

A strong capital base and the availability of low-cost funds are critical for any growth-oriented real estate enterprise, and we made significant progress by raising an additional $1.3 billion to fund our growth.

These results reflect the wisdom of our three-tiered growth strategy: to diversify our real estate activities by focusing concurrently on acquiring, developing and managing real estate assets; to expand our investment choices in office, retail or mixed-use properties across North America and beyond; and to manage our balance sheet to reduce our cost of capital. We are confident that, with this approach, TrizecHahn will be one of the premier global real estate companies in the years to come.

A strong capital base and the availability of low-cost funds are critical for any growth-oriented real estate enterprise, and we made significant progress by raising an additional $1.3 billion to fund our growth. We were active in both the debt and equity markets, raising more than $565 million. An additional $86 million came from the sale of non-core real estate assets, and a further $116 million from the sale of our interest in Clark USA, Inc. Subsequent to year end, our unencumbered holding in Barrick Gold Corporation was sold for gross proceeds of $513 million. The sale of our holdings in Barrick and Clark marks the completion of our commitment to become a pure real estate operating company.

During 1997, rental income from our retail centers of $142 million benefited from an increase in rents from expiring leases and increased occupancy, which rose 3% to 88%. An important contribution was some $15 million from revenue enhancement techniques that our

specialty leasing group generated. Nevertheless, competition among retailers remains intense, which also has an effect on retail real estate. In response, we have focused on high-end, super-regional centers that are well located, draw from strong demographic trade areas and attract high-performance retailers. An important measure of a center's strength is the average sales per square foot, which in our portfolio increased to $366, one of the highest in the industry.

Integral to our success is our opportunistic acquisition program. We aggressively pursue acquisition opportunities while maintaining financial discipline.

Results from our office portfolio were excellent. Rental income increased by 34% to $254 million. We leased 3.7 million square feet of space during the year, increasing our overall occupancy to 89% from 86%. New rents on average were only marginally below expiries, as rapidly improving markets increased overall rates. Given the strength of some of the markets in which we operate, we expect that new rents on average will reach or exceed expiries in 1998.

Demonstrated Acquisition Track Record

Integral to our success is our opportunistic acquisition program. We aggressively pursue acquisition opportunities while maintaining financial discipline. We acquire high-quality assets that provide value enhancement opportunities and the expectation of a total return on equity of at least 20%. We have found these opportunities both in the U.S. and Canada, primarily in Class A downtown office buildings. During 1997, we invested approximately $1 billion in such properties, located in improving markets with good economic fundamentals, and at substantial discounts to replacement costs. Building on our success in 1997, at the time of writing we have under contract or have closed an additional $1.2 billion of such acquisitions, including the Bell Canada portfolio for $540 million.

An important element of our acquisition program is to enhance the value of our acquired properties. Our experienced leasing and operating teams improve cash flow by increasing both occupancy and rents, and by reducing costs. Accordingly, we seek opportunities to buy assets with significant vacancies or with below-market rents, where returns may be quickly improved through our management input. Our focus is on total returns, not just initial yields. And our capital structure is flexible enough to allow us this liberty — a proven competitive advantage.

Development Capability

As capital continues to flow into the industry, the ability to make attractive acquisitions could become increasingly difficult. We anticipated this and consequently made development a cornerstone of our long-term growth strategy. TrizecHahn draws upon a 30-year track record and a highly experienced team to successfully develop large and complex projects.

Recently, we further enhanced our in-house capability by forming a new division devoted exclusively to our development program. This focused division will enable us to identify, finance and complete major North American and international development projects, including unique mixed-use properties that integrate office, entertainment and shopping facilities. We believe that multi-faceted, major projects will be the new face of global development activity.

Internationally, we continue to identify and develop new opportunities. Where needed, we will form strategic alliances and partnerships to enable us to combine our resources and experience with local knowledge and expertise. In 1997, we completed the acquisition, from Advanta Management AG, of a number of developments in Germany and the U.K. Among these is the prestigious Number One Poultry, a modern integrated office and shopping complex in the City of London, opposite the Bank of England, with expected completion in the spring of 1998.

By constantly improving the value of our real estate portfolio, we can further increase the value of our company and, ultimately, that of our shares.

Clearly, local expertise is essential to the success of major development projects in new markets. Through the Advanta transaction, we gained a skilled and experienced European management and development team. Likewise, in 1996, we formed TriGránit Development, a joint venture with Sándor Demján, a successful Hungarian developer. TriGránit will develop the West End City Center, a major mixed-use property in downtown Budapest adjacent to the historic west end train station created by Gustav Eiffel at the turn of the century. We expect to begin construction in the summer of 1998.

In North America, we are developing several destination retail/entertainment projects. During 1997, we began an extensive redevelopment of the CN Tower in Toronto, broke ground on Fashion Outlet of Las Vegas, and announced plans to develop the Hollywood Boulevard retail and entertainment complex. In March 1998, we announced that pre-leasing had begun on two Canadian office developments: the 1.2 million square foot Bay-Adelaide Centre in Toronto and the 800,000 square foot Bankers Hall Phase II in Calgary.

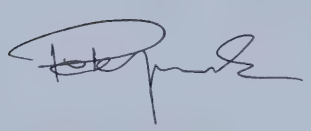
Aggressive Growth

We will aggressively pursue the strategy followed during the past two years to improve our asset mix. Accordingly, we will sell properties when we can achieve better returns by reinvesting the proceeds in higher yielding assets. On average, our total real estate portfolio of some $6 billion has been acquired at approximately two-thirds of replacement cost; this offers great potential to increase our returns through capital appreciation. We have the flexibility to sell when the markets are right. By constantly improving the value of our real estate portfolio, we can further increase the value of our company and, ultimately, that of our shares.

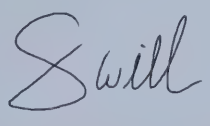
Since we made our initial investment in Trizec in 1994, the public real estate market has increased nearly fivefold. The market has also undergone significant changes: a shift from private to public ownership and the consolidation of smaller, less well-capitalized real estate companies. We believe that these trends will continue and, therefore, will provide many acquisition opportunities. TrizecHahn is uniquely positioned to take advantage of these trends.

But without an experienced team that can maximize the ongoing potential of such acquisitions, the results will be, at best, short-term. This is where our distinct competitive advantage lies. TrizecHahn, through its predecessor companies, has been a leading property developer and manager in the U.S. and Canada for more than a generation. Consequently, our people have a 30-year track record in every aspect of real estate operations. In our view, our most valuable asset is the depth and experience of our management team, whose importance will become increasingly evident with the passage of time. We believe that our size and financial strength will also be key contributors to our future success.

Our goal has always been to build a real estate growth company that will create wealth and value for our shareholders. This past year was an excellent start, and we are confident that the future will continue to see the realization of this vision.



PETER MUNK
Chairman and Chief Executive Officer



GREGORY C. WILKINS
President and Chief Operating Officer

Office Properties

TrizecHahn owns and operates one of the largest and highest quality office portfolios in North America. We actively acquire office properties with strong growth potential and then realize that potential through committed management and leasing. Our 43 million square foot office portfolio consists primarily of Class A buildings located in improving central business districts of major North American cities. We currently have 72 office properties, 53 in the U.S. and 19 in Canada. In 1997, our office portfolio contributed 64% of TrizecHahn's overall rental income, 37% from U.S. properties and 27% from Canadian properties.

One of TrizecHahn's competitive advantages in acquiring properties is its ability to understand and execute complex purchase transactions. As an example, the landmark Sears Tower in Chicago was encumbered by a complicated set of ownership rights held by a pension fund advisor. By understanding and ultimately acquiring this complex position, TrizecHahn was able to acquire effective control of the Sears Tower, a world-class quality office building, on favorable terms.

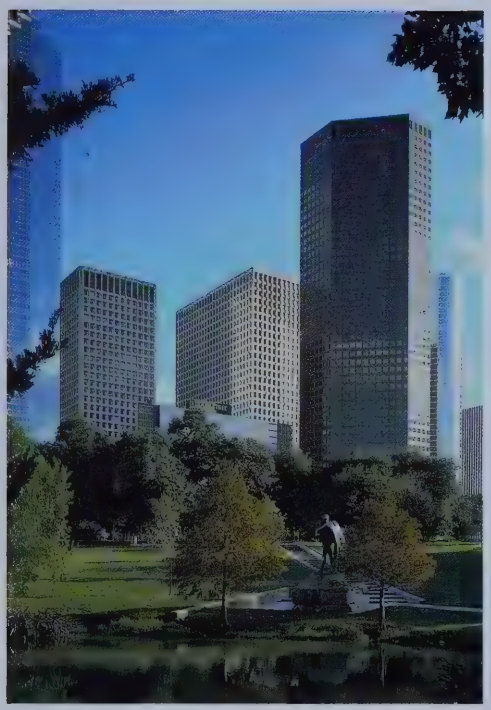
Our disciplined focus on acquisitions and on the aggressive management of our existing properties produced another very successful year for the office group in 1997. We increased rental income by 34% to $254 million, with $1 billion of office acquisitions during the year contributing most of this gain. Through a strong leasing program that leased 3.7 million square feet during the year, we increased overall occupancy at the end of 1997 to 89% from 86% in 1996. This occupancy rate increase was achieved despite the fact that several properties had significant vacancies when they were acquired.

Successful Acquisition Program

TrizecHahn's office acquisition strategy is to focus on high-quality, well-located assets, often in the downtown core of major metropolitan markets, that offer growth potential. These downtown buildings are typically of higher quality than suburban buildings and are more difficult and expensive to replace. Because these properties often have either significant vacant space or below-market rents, our leasing expertise can create substantial shareholder value. Also, we can acquire these buildings at substantial discounts to their replacement cost.

In 1997, we continued to successfully execute our office acquisition strategy. In keeping with our focus on investing in properties that offer excellent growth potential, during 1997 we acquired interests in more than 13 million square feet of high-quality office buildings at a cost of more than $1 billion. These were typically located in the central business districts of improving downtown markets. We acquired these properties at a cost of $93 per square foot, and at an average of approximately 55% of replacement cost. All of these acquisitions provided compelling investment returns. Our acquisition strategy is focused exclusively on delivering return on investment, not amassing size. Our 1997 office acquisitions were completed at current cash-on-cash returns, on average, of approximately 10% on an unlevered basis and 15% on a levered basis. These acquisitions are expected to yield a 20% levered total return, including appreciation.

In the first quarter of 1998, we expect to invest $1.2 billion to acquire an additional 10 million square feet of office buildings that are expected to provide comparable returns. Since initiating our office acquisition program in 1995, we have invested more than $2.6 billion in acquiring 30 million square feet of premier office space.

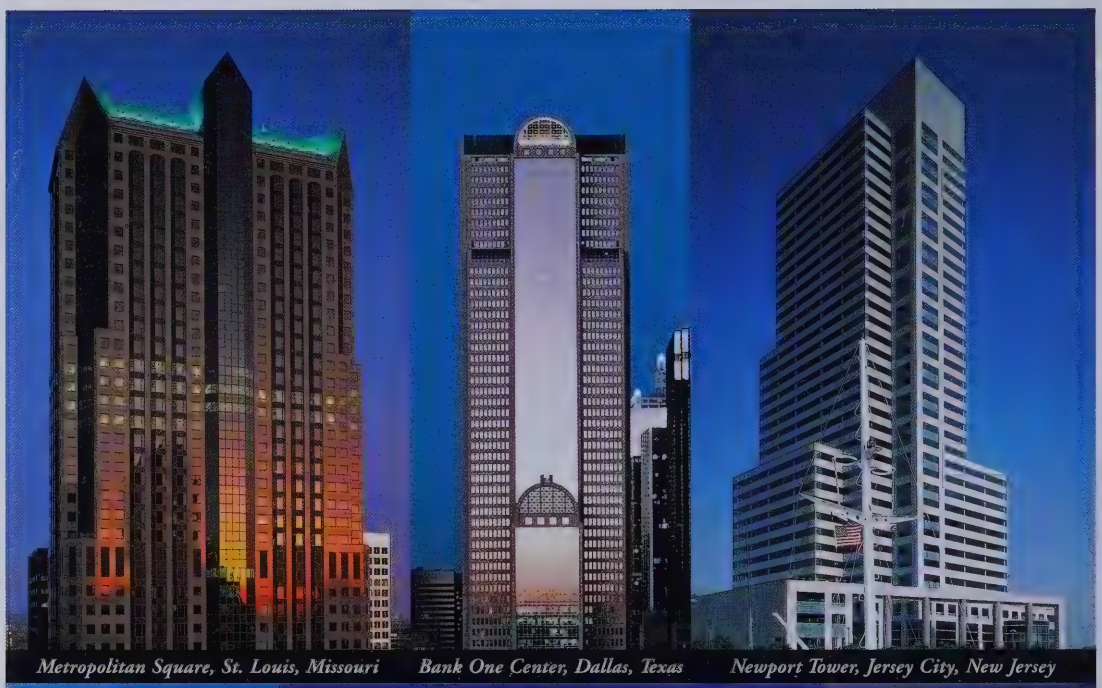


Allen Center, which we acquired in November 1996, consists of three towers comprising 3.2 million square feet of leasable space. When we acquired the property, occupancy stood at 76%. The significant inventory of vacant space in Allen Center became a great advantage with the increased demand for space and the rapid recovery in rents in the Houston market. Occupancy in Allen Center is now 85% and rental rates in Houston have increased 23% since our purchase.

Adding to our office concentrations in Houston, Calgary and Montreal, we also established a significant presence in New York during 1997. We acquired interests in four buildings, including the landmark Grace Building, in the strengthening Midtown Manhattan market. In addition, we purchased Newport Tower, a prestigious 1 million square foot, Class A property located directly across from Manhattan in Jersey City, New Jersey. Adding these acquisitions to our existing property in Stamford, Connecticut, TrizecHahn's metropolitan New York area portfolio now includes six assets, comprising interests in more than 5 million square feet. Average rents in our portfolio are below today's market rents, and we expect further improvement as lower vacancies and increased demand continue to drive rental rates upwards.

In Dallas, we purchased Bank One Center in partnership with Crescent Real Estate Equities. Together, our two companies have approximately a 40% market share of the Class A office space in that city. We recognized that cooperating was more effective than competing. Bank One Center was only 72% occupied on acquisition, offering us the opportunity to significantly increase cash flow through lease-up of the property. We acquired a similar property in Dallas in December 1995, the 1.7 million square foot Renaissance Tower. As a result of the efforts of our leasing team, we have increased occupancy in that building by 14% to 88%, including the relocation of major divisions of Transamerica and Viacom. We expect further improvement in the Dallas market as a stronger, more diversified local economy and major corporate relocations contribute to a revitalization of the downtown area.

TrizecHahn has a number of competitive advantages as we execute our acquisition strategy. First, our size and financial strength allow us to acquire large-scale projects and still maintain significant diversification in



Metropolitan Square, St. Louis, Missouri *Bank One Center, Dallas, Texas* *Newport Tower, Jersey City, New Jersey*

1065 Avenue of the Americas, New York, New York *Midtown Plaza, Atlanta, Georgia* *Place Sherbrooke, Montreal, Quebec* *Citicorp Center, Los Angeles, California*

In 1997, TrizecHahn invested over $1 billion to acquire interests in 15 office properties, totaling 13 million square feet (listed in order of acquisition date).

The Grace Building	*New York, New York*
World Apparel Center	*New York, New York*
1460 Broadway	*New York, New York*
Citicorp Center	*Los Angeles, California*
1333 Main Street	*Columbia, South Carolina*
Place Sherbrooke	*Montreal, Quebec*
151 Front Street	*Toronto, Ontario*
North York Square	*Toronto, Ontario*
1065 Avenue of the Americas	*New York, New York*
Bank One Center	*Dallas, Texas*
Newport Tower	*Jersey City, New Jersey*
Midtown Plaza	*Atlanta, Georgia*
Sears Tower	*Chicago, Illinois*
Metropolitan Square	*St. Louis, Missouri*
Bethesda Crescent	*Bethesda, Maryland*

In the first quarter of 1998, we have closed or announced an additional $1.2 billion of acquisitions, totaling 10 million square feet of office properties, including portfolios from The JBG Companies in the Washington, D.C. area and from Bell Canada in Ontario and Quebec.

our portfolio. Second, we take a broader total return focus than many of our competitors, who are preoccupied with current return ("positive spread") investing. Finally, our ability to understand and manage complex transactions, involving multiple affected parties, results from the depth of our management team and our relationships with industry participants. One such example was TrizecHahn's purchase of an interest in the Sears Tower in December 1997. The seller held a set of complicated rights, including a second mortgage and effective control of the Tower, but received no current cash payments on its investment. However, this position did have substantial appreciation potential given the property's strong market position in Chicago, which has been experiencing rapid rental rate growth. By understanding and ultimately acquiring this complex position, TrizecHahn was able to acquire effective control of the Sears Tower, a world-class, quality office building, on favorable terms.

During 1997, we also announced the acquisition of the office portfolio and certain operating groups of The JBG Companies, a private group with a dominant franchise in the Washington, D.C. area. By purchasing this portfolio, we were able to avoid the expense of a public company acquisition premium, while still acquiring a high-quality office portfolio with a significant market position, a well-regarded, professional management team, and a development pipeline. The properties include 3.7 million square feet of office buildings in Washington, D.C., Virginia and Maryland. The transaction also included 3 million square feet of office development potential, a property management company with third-party contracts

covering more than 3 million square feet of properties, and a 60% interest in a new joint venture with principals of The JBG Companies to provide development services. The JBG transaction was completed in early 1998.

In the first quarter of 1998, we also announced the acquisition of the Bell Canada office portfolio in Ontario and Quebec for more than $540 million. Bell Canada is Canada's largest telephone service provider. The portfolio totals 6 million square feet, 95% of which is initially leased to Bell Canada, which will become our largest tenant. The combination of Bell Canada's high-quality lead tenancy, the quality of the real estate and improving markets throughout Canada should create exceptional value for our shareholders through this transaction.

Operational Excellence

We are committed to maximizing the value of our existing properties through aggressive leasing, operational improvements, cost efficiencies and superior property management. During 1997, our leasing up of 3.7 million square feet of office space and our operating enhancements created substantial value throughout our existing portfolio.

Our focus on operating efficiencies throughout the portfolio includes reducing energy costs, aggressively appealing property tax assessments and improving the quality of our services. We have also put in place volume purchasing and national contracts for elevators, security, carpeting, lighting and other tenant components.

In addition, our strong position in certain key markets allows us to take advantage of economies of scale, and to attract and retain tenants with different needs and requirements. For example, in Houston, we control 6 million square feet of office space, or 20% of the Class A market, in seven buildings, including Allen Center (acquired in 1996) and Cullen Center.

As a result of having a large amount of contiguous available space, we were able to lease 600,000 square feet to Continental Airlines at Cullen Center. When the lease takes effect in mid-1998, it will represent a 10% increase in the occupancy level of our Houston portfolio, which was 86% at the end of 1997. Moreover, Houston's healthy economy has pushed rental rates almost 23% above what they were a year ago, which will benefit us as leases expire and as we lease up the remaining vacant space.

Outlook

We believe that the fundamentals in the office market in North America are as strong as they have been at any time in the past 20 years. We expect to see further occupancy increases in central business district office buildings as high demand for space outstrips supply. We expect this imbalance to result in substantial rental growth in our properties, with minimal increases to our operating expenses until such time as new inventory is brought on-stream, a process that will take at least several years. Our portfolio is carried on our books at well below replacement cost. Therefore, we will see significant appreciation in the value of our portfolio as rents rise to a level sufficient to support new construction. In the interim, our extensive development capabilities can be brought to bear on those markets, such as Calgary and Toronto, where our development projects can generate appropriate returns. In addition, many of our downtown office buildings are protected by barriers to entry such as land scarcity and zoning impediments.

We believe that the TrizecHahn office investment program will continue to be successful. The supply of high-quality, central business district office properties available for purchase should increase during 1998, because many natural sellers are now coming to the market as pricing improves. Our investments will likely take the form of both property and corporate acquisitions.

With significant purchasing power, a credible track record for certainty of execution and an ability to complete complex transactions, TrizecHahn is well positioned to take advantage of this unprecedented transfer of properties from the private to the public market. Finally, as a large real estate company spanning most of North America, we can avoid overheated investment markets by allocating capital to a larger universe of markets where attractive investment opportunities continue to exist.

Retail Centers

TrizecHahn owns and operates one of the highest quality retail center portfolios in the United States. Our centers are located in major metropolitan markets, in trade areas with household disposable income averaging 25% higher than the national average and with other demographics favorable to consumer spending. We focus on the most productive super-regional centers because we believe that our operational and development expertise can drive that particular segment of the retail center industry to sustain long-term value for our shareholders. We have 25 regional and super-regional retail centers comprising 23.5 million square feet (our ownership interest, excluding anchors and partners, is 6.8 million square feet) and averaging 950,000 square feet per center. All of our retail centers are in the U.S., with 67% of the total area in California. In 1997, our retail portfolio accounted for 36% of TrizecHahn's total rental income.

In August 1996, TrizecHahn opened Park Meadows, a 1.6 million square foot destination retail center in Denver, Colorado. In recognition of its unique Rocky Mountain resort lodge architecture and design, Park Meadows was the winner of the Urban Land Institute's prestigious top design award for 1997.

We have actively managed our retail portfolio to provide sustained cash flow through holding only prominent retail centers, redeveloping selected centers and pursuing disciplined new development. During 1997, the financial results of the retail portfolio again testified to the success of that strategy. Tenant sales, one of the benchmarks of success for the industry, rose to $366 per square foot, 24% above the industry average.

For our major market portfolio, rental income increased to $129 million, a healthy 6% increase over last year. The retail portfolio as a whole, including mid-market centers, experienced a decline in rental income due to the disposition of several centers representing 6 million square feet. 1997 saw an increase in retail center rental rates of 15% to $32 per square foot — the competitive environment may hinder such increases in the future. Overall, the retail portfolio enjoyed an average $7 per square foot rental rate increase on new leases compared with expiring leases in 1997.

Dominant Centers

Our super-regional centers are all located in major U.S. metropolitan areas such as Los Angeles, San Francisco, San Diego, New York, and Baltimore-Washington, and in some of the fastest growing major markets in the U.S. such as Las Vegas, Denver, and Salt Lake City. Our unique retail destinations, such as Park Meadows in Denver, Valley Fair in the San Francisco area, Bridgewater Commons outside New York and Horton Plaza in San Diego, are all in areas of strong consumer demand and have significant barriers to entry for potential competitors.

TrizecHahn has an average of 3.7 department stores per center, including some of the highest quality department stores in the U.S.: Nordstrom, Macy's, Robinsons-May, Dillard's, Lord & Taylor, Neiman Marcus, Sears and JCPenney. In 1997, 25 of our anchors exceeded $40 million in sales and 20 exceeded $300 per square foot — excellent sales figures for the industry. We also have many of the most sought-after names in retailing, including Crate & Barrel, Restoration Hardware, The Gap, Ann Taylor, Eddie Bauer and Disney. Often the best-performing stores for these retailers are located in TrizecHahn centers.

Disciplined Management

In 1997, the retail portfolio's contribution to total rental income declined, due to a significant reduction in the number of centers included in the portfolio. However, for those centers in the portfolio at December 31, 1997 and 1996, rental income increased by 7% from 1996 to 1997. The key drivers of this were specialty leasing, increases in occupancy and rollover of expiring leases at higher rental rates.

The success of our specialty leasing program, initiated in 1996, is an example of how our management team drives significant increases in revenue. This program increases overall revenue from our centers by licensing center hallway space as well as by leasing vacant in-line shop space for short periods, in anticipation of new long-term tenants. Specialty leasing offers us a recurring source of revenue, mitigates the impact of vacancies until long-term tenants are in place, and creates more varied, energized centers. In 1997, with minimum capital investment or expenses, this program generated more than $24 million in revenue, of which $15 million was TrizecHahn's share.

A 1997 redevelopment of Valley Fair in San Jose, California, has enhanced its position as Silicon Valley's leading fashion center. Even though the center was under construction for the better part of the year, sales per square foot rose 14% to $636, a number twice the industry average.

Merchandising ability remains critical to the success of any center, and here we believe TrizecHahn management has a competitive edge. By taking advantage of our retail centers' strong positions in their specific markets, and by using our merchandising experience to optimize tenant mix, we are able to improve rents and occupancy. Occupancy levels at our major market centers were 91% at year end and 96% including specialty leasing, among the highest in the industry.

We expect continued growth in cash flow for our retail centers as there continue to be opportunities to increase revenue by increasing occupancy. In most of our centers, we have continued to drive higher income from specialty leasing, although it is unlikely that we will see the extraordinary growth in specialty leasing income that we have seen during the past two years. Since rental rates are generally closely related to tenant sales, our daily sales and other programs designed to boost sales will benefit us by providing higher rental rates on expiring and new leases. In addition, since our tenants' cost of occupancy to sales ratio is relatively low there may be opportunities to increase rents further without significantly affecting the tenants' profitability. All of these initiatives will continue to increase the value of our retail centers.

Medium-term cash flow growth will also come from successful execution of a number of asset management initiatives, consisting primarily of buying out partners' interests and refinancing above-market debt at lower rates. In addition, expansions and redevelopments will provide a positive contribution, as discussed below.

There are a number of other significant revenue sources, including corporate sponsorships, branding and utilizing our centers as an advertising medium, that can further enhance our valuable franchise over time.

Redevelopment

We continue to improve our retail center properties through disciplined and selective reinvestment, which revitalizes and repositions centers for greater cash flow returns. The 1997 redevelopment of Valley Fair in San Jose, California, bears witness to the success of this strategy. Despite being under construction for the better part of the year and despite a competing center's recent major expansion, tenant sales rose 14% in 1997 to $636 per square foot, twice the industry average.

In 1998, TrizecHahn plans to add 265,000 square feet of retail and entertainment space to Bridgewater Commons, located within the upscale market of central New Jersey, southwest of New York City. The expansion should enhance the center's position as a consistent sales leader in our retail center portfolio, with 1997 sales per square foot of $517.

During 1998, we plan other redevelopments, such as the $12 million remodeling of University Towne Centre and a 265,000 square foot addition of retail and entertainment space to Bridgewater Commons. At Fashion Place in Salt Lake City, we plan to completely remodel the 948,000 square foot center and add new specialty stores, a 100,000 square foot theater, and possibly a new anchor tenant. These, and all other projects, will be subject to the same degree of careful financial review we undertake for all capital expenditures, and thus we expect significant returns to be generated.

Outlook

In 1998, we expect that the favorable interest rate environment, continued economic growth and high consumer confidence will translate into increased value through our TrizecHahn centers franchise.

Our strong 1997 results indicate the success that we have achieved in realigning our retail portfolio to emphasize quality, market strength and growth. The results also prove the wisdom of culling our less-significant assets in an increasingly competitive environment.

Development

The newly announced TrizecHahn Development division is devoted exclusively to our expanding program of domestic and international real estate development. The division will be staffed by development officers and personnel who, over the span of more than 30 years, have established a proven track record as major developers of landmark retail and office properties. By bringing together people who have the full range of development skills, we strengthen our capacity to execute current development projects and identify new development opportunities in North America, as well as to coordinate and support our growing international development activities in Europe, Asia and elsewhere.

TrizecHahn Developments will use its extensive expertise to develop, market and lease the Bay-Adelaide Centre, in the heart of Toronto's financial district. This 50-storey, 1.2 million square foot Class A office tower is a technologically advanced building, which is designed to meet the needs of the next century. Construction on the Bay-Adelaide Centre, the first new office building in downtown Toronto in 10 years, is scheduled to begin in late 1998 and finish mid-year 2000.

TrizecHahn Development is firmly based on our established principles of combining an entrepreneurial outlook with financial discipline to create a pipeline of cash flow growth and incremental value for our shareholders. We believe that our blend of development expertise, financial strength and contacts throughout the world is unique in the real estate industry. Our ability to identify, finance and complete major development projects of different types and in a variety of geographic markets is a cornerstone of our growth strategy. Our focused development division will enable us to fully exploit these competitive advantages.

During the past 30 years, TrizecHahn's office and retail divisions have developed more than 90 retail centers and more than 14 million square feet of office space. The quality of these development and redevelopment projects has been recognized within the industry through numerous awards for projects including Park Meadows, Bridgewater Commons, Horton Plaza, Bankers Hall and Place Ville Marie. For example, Park Meadows was recently selected as winner of the prestigious "Award for Excellence" from the Urban Land Institute.

The creation of our development group will maximize efficiency and provide synergy among development staff who have the full range of development capabilities, from predevelopment stages through final construction and opening. This new division will concentrate expertise in marketing, research, leasing, design, financial and legal controls, and operational efficiencies for the benefit of the operating units.

North American Development

We focus on developing great retail and entertainment centers that are destinations in themselves, and that are distinct from the competition and from the concept of the traditional shopping center. We offer customers choices, emphasize design and merchandising, and focus on tourism to attract customers from greater distances, to increase the length of their stay and the amount of their spending, and thereby generate superior rents and cash flow.

In July, we broke ground on Fashion Outlet of Las Vegas, which is scheduled to open in July 1998. We are developing what promises to be the U.S.'s foremost high-end fashion outlet center in partnership with The Gordon Group, developer of one of the most successful retail centers in Las Vegas.

In 1997, TrizecHahn acquired control of Toronto's landmark CN Tower, the world's tallest free-standing structure. In May 1998, we are scheduled to complete the initial phase of an entertainment and retail redevelopment that will firmly establish the CN Tower's reputation as a world-class destination.

Fashion Outlet is located in Primm, Nevada, on the main highway between Los Angeles and Las Vegas, and is part of a major entertainment, hotel, casino and recreational development which will benefit from the 32 million tourists and conventioneers who visit the Las Vegas area annually. Fashion Outlet will feature 400,000 square feet of stores, including some of the world's premier fashion names, such as Neiman Marcus, Versace, LaCoste, Armani A/X, The Gap and Guess.

In March 1997, we were selected by the Community Redevelopment Agency of the City of Los Angeles to redevelop the 1½ city blocks on Hollywood Boulevard adjacent to the world-famous Mann's Chinese Theater and Hollywood Walk of Stars. In August, we announced plans for the development of a 640,000 square foot retail and entertainment complex on this site, which will include a retail area of 500,000 square feet, a 2,000 seat multiplex cinema and a 3,300 seat live broadcast theater proposed to be the locale for future Academy Awards ceremonies as well as a full season of live performances.

During the year, we acquired control of Toronto's CN Tower, the world's tallest free-standing structure and one of Canada's best-known attractions, and began its extensive redevelopment. A C$26 million entertainment expansion and revitalization of the CN Tower will open in May 1998. This is the initial part of a two-phase development that will make the CN Tower into a world-class retail and entertainment destination to capitalize on the 6 million tourists who visit the area each year.

With the tightening supply of premier office space in the U.S. and Canada, we are actively pursuing office and mixed-use development projects in North America. To meet this demand, we will draw upon our track record of developing signature office buildings and creating high-quality, premier work environments.

In April 1997, Trizec Hahn announced plans to develop a 750,000 square foot retail entertainment complex at the historic Hollywood and Highland intersection on Hollywood Boulevard. The Hollywood and Highland project will become a focal point for the 7 million visitors to Hollywood each year.

In December, we formed a joint venture with a subsidiary of the CN Pension Fund to develop the Bay-Adelaide Centre office site in downtown Toronto. This 50-story, 1.2 million square foot Class A office tower will provide Toronto's financial core with a facility designed to meet the needs of the next century. Construction is scheduled to begin in late 1998 and to be completed mid-year 2000.

Another major office project likely to get underway in 1998 is the second tower at Bankers Hall in Calgary. This 50-story, 800,000 square foot Class A office tower will help meet the current strong demand in Calgary for high-quality office space, as evidenced by the 4% vacancy rate in that market. For both of these projects, our construction costs will be reduced by the significant infrastructure already in place.

International Development

Global business activity and consumer spending have given rise to vastly changing real estate needs around the world. There are tremendous opportunities in emerging economies, where development expertise is limited or economic growth has created new opportunities. Our primary focus will be in Central Europe, Asia and Latin America. By exploiting our competitive advantages of development expertise, global relationships and broad access to capital, international development projects will add to our cash flow in the medium term.

As we expand into global markets, we are using a multi-faceted development approach. We will continue to supplement our extensive North American property experience with strategic alliances and local partners who have proven track records, strong local market knowledge and extensive contacts. We are also making strategic acquisitions and pursuing carefully selected new development projects that meet our rigorous financial criteria. And, we will continue to carefully manage our equity investment in these foreign markets, consistent with our strategy of maximizing returns, after considering the impact of currencies and taxes.

In April 1997, we acquired from Advanta Management AG a number of development projects in the U.K. and Germany. The most prominent

of these is Number One Poultry, one of the most prized development sites in the City of London. Designed by the celebrated British architect, the late Sir James Stirling, the distinctive 140,000 square foot landmark office and retail property is to be completed in the spring of 1998. Located in a highly prestigious location, opposite the Bank of England in the financial heart of the City of London, Number One Poultry is in an excellent position to benefit from the area's rapidly rising rental rates.

As part of our strategy of creating joint ventures to pursue global development, we formed TriGránit Development in 1996, a joint venture with Sándor Demján, a successful Hungarian real estate developer. In mid-1998, we will begin construction of West End City Center, a mixed-use development in downtown Budapest, adjacent to the historic west end train station and a shopping and residential area, and close to main roads. This project, which is designed to complement the historic architecture of the city, will include a 430,000 square foot retail and entertainment center, a 315,000 square foot office building and a 220-room hotel.

TrizecHahn Asia-Pacific, through its Tokyo office, has positioned itself to capitalize on the recent turmoil in the Asian markets, particularly Japan, which could well provide extraordinary investment opportunities for TrizecHahn. Declining asset values, coupled with a lack of liquidity, has created a situation analogous to that in the U.S. in the late 1980s: owners and lenders are now motivated to sell properties at substantial discounts to replacement costs. By aligning with strong local partners in strategic markets, TrizecHahn has established the capability to assess and selectively explore various investment initiatives.

In April 1997, TrizecHahn acquired one of the most prized development sites in the City of London, Number One Poultry. The distinctive office and retail property opposite the Bank of England is to be completed in the spring of 1998.

Outlook

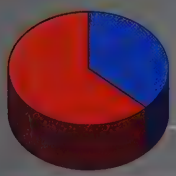
Our development division will remain focused on TrizecHahn's commitment to provide sustained growth for the company and value for our shareholders. We will continue our tradition of success by using our financial strength, expertise and global reach to identify, develop and complete North American and international development projects that are in line with our disciplined and performance-oriented approach.

NEW YORK
D.C. AREA
Office Properties
Retail Centers
At March 15, 1998

North American Property Portfolio

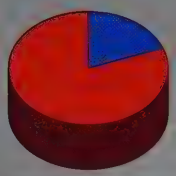
1997 Overview – Combined Portfolio

GROSS LEASABLE AREA



DISTRIBUTION: OFFICE/RETAIL CENTERS

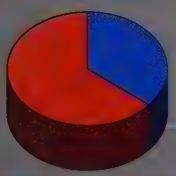
	TOTAL PROPERTIES	SQ. FT. MILLIONS	%
Office	53	39.6	63%
Retail Center	25	23.5	37%
Total	**78**	**63.1**	**100%**



DISTRIBUTION: NORTH AMERICA

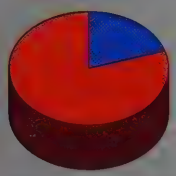
	TOTAL PROPERTIES	SQ. FT. MILLIONS	%
U.S.	58	51.4	81%
Canada	20	11.7	19%
Total	**78**	**63.1**	**100%**

NET BOOK VALUE



DISTRIBUTION: OFFICE/RETAIL CENTERS

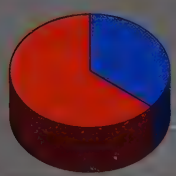
	$ MILLIONS	%
Office	$ 2,835	64%
Retail Center	1,600	36%
Total	**4,435**	**100%**



DISTRIBUTION: NORTH AMERICA

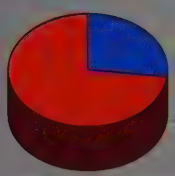
	$ MILLIONS	%
U.S.	$ 3,556	80%
Canada	879	20%
Total	**4,435**	**100%**

RENTAL INCOME



DISTRIBUTION: OFFICE/RETAIL CENTERS

	$ MILLIONS	%
Office	$ 254	64%
Retail Center	142	36%
Total	**396**	**100%**



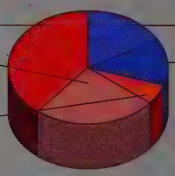
DISTRIBUTION: NORTH AMERICA

	$ MILLIONS	%
U.S.	$ 291	73%
Canada	105	27%
Total	**396**	**100%**

1997 Overview – Office Portfolio

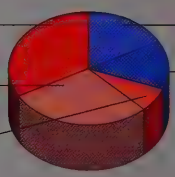
GROSS LEASABLE AREA

Central U.S.	39%	17%	Western Canada
Eastern U.S.	25%	13%	Eastern Canada
California	6%		
Total U.S.	**70%**	**30%**	**Total Canada**



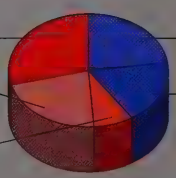
NET BOOK VALUE

Central U.S.	33%	17%	Western Canada
Eastern U.S.	29%	14%	Eastern Canada
California	7%		
Total U.S.	**69%**	**31%**	**Total Canada**



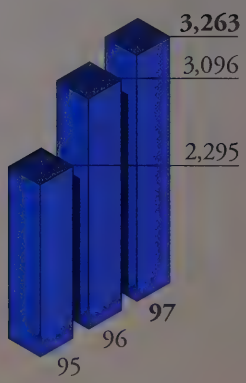
RENTAL INCOME

Central U.S.	29%	23%	Western Canada
Eastern U.S.	22%	18%	Eastern Canada
California	8%		
Total U.S.	**59%**	**41%**	**Total Canada**



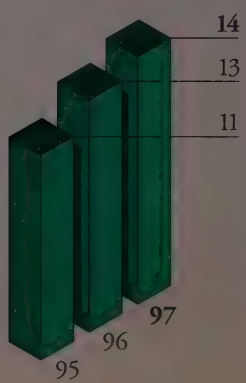
TOTAL LEASING

*(sq. ft. thousands)**



TENANT INSTALLATION COSTS

*($ per sq. ft.)**



* TrizecHahn's proportionate share

GEOGRAPHIC DISTRIBUTION	Number of properties	Sq. ft. millions
Central U.S.	12	15.3
Eastern U.S.	15	10.0
California	6	2.6
Total U.S.	33	27.9
Western Canada	10	6.6
Eastern Canada	10	5.1
Total Canada	20	11.7
Total	53	39.6

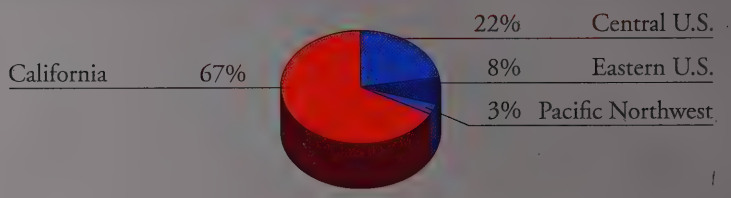
OPERATING HIGHLIGHTS[1] ($ millions except as noted)	U.S.	Canada	Total
Net book value[2]	1,956	879	2,835
Net book value (per sq. ft.)[2]	$ 99	$ 88	$ 96
Rental revenue	285	198	483
Rental income	149	105	254
Operating margin	52%	53%	53%

LEASING HIGHLIGHTS[1] (Sq. ft. thousands except as noted)	U.S.	Canada	Total
Occupancy	87%	93%	89%
New leasing and renewals[3]	2,711	948	3,659
Lease expiries[3]	2,041	806	2,847
Net leasing[3]	670	142	812
Tenant installation costs ($ millions)	37	9	46
Tenant installation costs (per sq. ft.)	$ 15	$ 11	$ 14

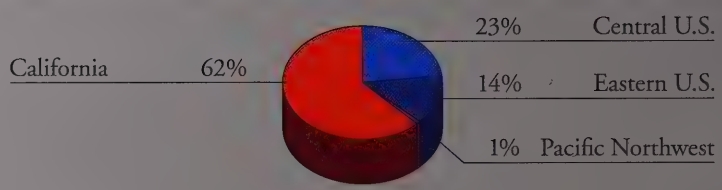
1. For the 12 months ended December 31, 1997
2. At December 31, 1997
3. Represents 100% of portfolio, not TrizecHahn's proportionate share

1997 Overview – Retail Portfolio

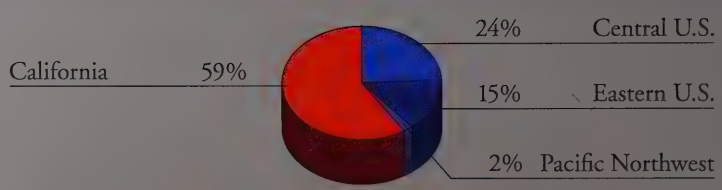
GROSS LEASABLE AREA



NET BOOK VALUE

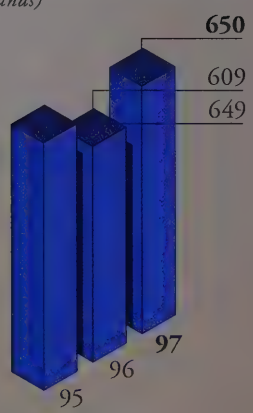


RENTAL INCOME



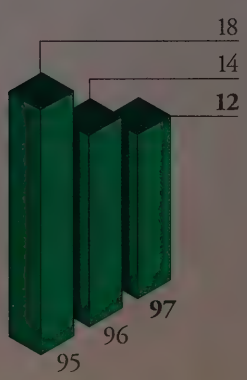
TOTAL LEASING

*(sq. ft. thousands)**



TENANT INSTALLATION COSTS

*($ per sq. ft.)**



* TrizecHahn's proportionate share

GEOGRAPHIC DISTRIBUTION	Number of properties	Sq. ft. millions
Major Market		
California	14	13.9
Central U.S.	4	4.5
Eastern U.S.	2	1.8
Pacific Northwest U.S.	–	–
Total	20	20.2
Mid-Market		
California	3	1.9
Central U.S.	1	0.8
Eastern U.S.	–	–
Pacific Northwest U.S.	1	0.6
Total	5	3.3
Total Retail Centers		
California	17	15.8
Central U.S.	5	5.3
Eastern U.S.	2	1.8
Pacific Northwest U.S.	1	0.6
Total	25	23.5

OPERATING HIGHLIGHTS[1] ($ millions except as noted)	Major Market	Mid-Market	Total
Net book value[2]	1,547	53	1,600
Net book value (per sq. ft.)[2]	$ 276	$ 44	$ 236
Rental revenue	207	24	231
Rental income	129	13	142
Operating Margin	63%	53%	62%
Tenant sales (per sq. ft.)	$ 386	$ 221	$ 366

LEASING HIGHLIGHTS[1] (Sq. ft. thousands except as noted)	Major Market	Mid-Market	Total
Occupancy (excluding temporary tenants)	91%	73%	88%
New leasing and renewals[3]	865	120	985
Lease expiries[3]	855	188	1,043
Net leasing[3]	10	(68)	(58)
Tenant installation costs ($ millions)	8	–	8
Tenant installation costs (per sq. ft.)	$ 13	$ 7	$ 12

1. For the 12 months ended December 31, 1997
2. At December 31, 1997
3. Represents 100% of portfolio, not TrizecHahn's proportionate share

Office Properties

United States

Name (Ownership %)[1]	Location	Year of completion/ renovation	Number of stories	Total leasable area (sq. ft.)	Office area (sq. ft.)	Retail area (sq. ft.)	Occupancy at Dec. 31 1997[2]
CENTRAL U.S.							
Allen Center	Houston, Texas	1972/78/80/95	34/36/50	3,176,000	3,112,000	64,000	85%
Cullen Center	Houston, Texas						
1600 Smith		1984	55	1,108,000	1,108,000		95%
M.W. Kellogg Tower (50%)		1978	40	1,035,000	1,035,000		86%
600 Jefferson		1971	20	420,000	420,000		59%
500 Jefferson		1962/83	20	373,000	373,000		99%
Renaissance Tower	Dallas, Texas	1974/92	56	1,731,000	1,678,000	53,000	88%
Bank One Center (50%)	Dallas, Texas	1987	60	1,531,000	1,531,000		73%
McKinney Place	Dallas, Texas	1985	14	141,000	141,000		86%
Metropolitan Square	St. Louis, Missouri	1989	42	948,000	928,000	20,000	90%
Two Pershing Square	Kansas City, Missouri	1986	11	511,000	511,000		97%
Sears Tower[3]	Chicago, Illinois	1974	110	3,512,000	3,446,000	66,000	91%
Northstar Center	Minneapolis, Minnesota	1916/62/86	17/13	813,000	745,000	68,000	96%
EASTERN U.S.							
The Grace Building (50%)	New York, New York	1971	50	1,436,000	1,349,000	87,000	99%
World Apparel Center (50%)	New York, New York	1970	41	1,088,000	1,039,000	49,000	98%
1460 Broadway (50%)	New York, New York	1951	17	198,000	183,000	15,000	73%
1065 Avenue of the Americas (99%)	New York, New York	1958	35	603,000	563,000	40,000	91%
Newport Tower	Jersey City, New Jersey	1990	37	1,028,000	1,004,000	24,000	98%
First Stamford Place[4]	Stamford, Connecticut	1984/86/87	7/4/7	764,000	764,000		95%
Bethesda Crescent	Bethesda, Maryland	1987	3/9/11	259,000	245,000	14,000	98%
Gateway Center	Pittsburgh, Pennsylvania	1952/60	24/22/20	1,450,000	1,397,000	53,000	81%
Fisher Building	Detroit, Michigan	1928	28	635,000	543,000	92,000	76%
New Center One (67%)	Detroit, Michigan	1983	8	496,000	409,000	87,000	97%
Albert Kahn Building	Detroit, Michigan	1931	11	270,000	268,000	2,000	91%
Colony Square	Atlanta, Georgia	1970/73/95	22/24	820,000	679,000	141,000	76%
Midtown Plaza	Atlanta, Georgia	1984/85	13/20	501,000	501,000		81%
1441 Main Street	Columbia, South Carolina	1988	14	261,000	261,000		86%
1333 Main Street	Columbia, South Carolina	1983	7	214,000	192,000	22,000	94%
CALIFORNIA							
Citicorp Center (25%)	Los Angeles	1985	41	1,233,000	895,000	338,000	74%
Marina Towers (50%)	Los Angeles	1971/76	13	368,000	368,000		95%
9800 La Cienega	Los Angeles	1985	14	336,000	336,000		89%
Encino Gateway	Los Angeles	1978	20	338,000	338,000		88%
The Pinkerton Building	Los Angeles	1970	18	200,000	200,000		89%
Warner Center	Los Angeles	1980	4	104,000	104,000		100%
Total – United States (33 properties)				27,901,000	26,666,000	1,235,000	87%

Canada

Name (Ownership %)[1]	Location	Year of completion/ renovation	Number of stories	Total leasable area (sq. ft.)	Office area (sq. ft.)	Retail area (sq. ft.)	Occupancy at Dec. 31 1997[2]
WESTERN CANADA							
Bankers Hall	Calgary, Alberta	1989	50	1,107,000	867,000	240,000	98%
Western Canadian Place (50%)[5]	Calgary, Alberta	1983	42/32	1,120,000	1,079,000	41,000	100%
Calgary Place	Calgary, Alberta	1970	31/25	612,000	539,000	73,000	93%
Scotia Centre (50%)	Calgary, Alberta	1977	40	595,000	503,000	92,000	91%
Fifth & Fifth	Calgary, Alberta	1980	32	491,000	472,000	19,000	99%
Royal Bank Building	Calgary, Alberta	1970/91	22	331,000	331,000		99%
Canada Place[4]	Edmonton, Alberta	1988	17	844,000	765,000	79,000	100%
CN Tower	Edmonton, Alberta	1966	26	285,000	256,000	29,000	85%
Winnipeg Square	Winnipeg, Manitoba	1983	31	621,000	561,000	60,000	98%
Royal Centre	Vancouver, British Columbia	1974	39	609,000	505,000	104,000	94%
EASTERN CANADA							
Place Ville Marie	Montreal, Quebec	1962/91	42/17/6	2,673,000	2,512,000	161,000	90%
2020 University	Montreal, Quebec	1975	25	456,000	379,000	77,000	94%
Place Sherbrooke	Montreal, Quebec	1976	25	330,000	289,000	41,000	68%
360 Saint-Jacques	Montreal, Quebec	1928	23	316,000	312,000	4,000	74%
500 René-Lévesque[6]	Montreal, Quebec	1985	26	295,000	293,000	2,000	96%
Place Québec[7]	Quebec City, Quebec	1973/74	8	240,000	152,000	88,000	77%
151 Front Street West	Toronto, Ontario	1954	8	255,000	210,000	45,000	94%
North York Square	Toronto, Ontario	1974/75	7/9	228,000	227,000	1,000	90%
180 Wellington	Toronto, Ontario	1971	13	210,000	210,000		100%
347 Bay Street (50%)	Toronto, Ontario	1924	12	61,000	56,000	5,000	94%
Total – Canada (20 properties)				11,679,000	10,518,000	1,161,000	93%
Total – Office Properties (53 properties)				39,580,000	37,184,000	2,396,000	89%
OTHER							
CN Tower[8]	Toronto, Ontario	1976		n.a.			

Recent Acquisitions[9]

Name (Ownership %)[1]	Location	Year of completion/ renovation	Total leasable area (sq. ft.)	Occupancy at Dec. 31 1997[2]
2000 L Street, N.W.	Washington, D.C.	1968/87/97	381,000	57%
Watergate Office Building	Washington, D.C.	1968/95	272,000	97%
1400 K Street, N.W.	Washington, D.C.	1982	191,000	99%
1250 23rd Street, N.W.	Washington, D.C.	1990	117,000	100%
Spring Park I & II	Herndon, Virginia	1986	359,000	94%
Unisys Building	Reston, Virginia	1980	251,000	100%
Rosslyn Gateway	Rosslyn, Virginia	1966/69	251,000	87%
Lynn Building/Waterview (80%)	Rosslyn, Virginia	1965	245,000	67%
Courthouse Square	Alexandria, Virginia	1979	113,000	93%
Indian Creek Office Park	Sterling, Virginia	1983	97,000	100%
Sugarland West	Herndon, Virginia	1983	67,000	100%
Twinbrook Metro Park	Rockville, Maryland	1970/95/96	541,000	100%
Twinbrook Office Center	Rockville, Maryland	1983	160,000	100%
6006 Executive Boulevard	Rockville, Maryland	1963/95	48,000	100%
Artery Plaza West	Bethesda, Maryland	1965/87/95	98,000	97%
Allied-Signal – Goddard Park	Greenbelt, Maryland	1993	203,000	100%
Hanover Office Park[10]	Greenbelt, Maryland	1987	20,000	70%
250 West Pratt Street[3]	Baltimore, Maryland	1986	364,000	99%
Esperanté Office Building	West Palm Beach, Florida	1989	235,000	92%
NationsBank Plaza	Columbia, South Carolina	1989	302,000	85%
Total – Recent acquisitions (20 properties)			4,315,000	
Total – Office Properties, including recent acquisitions (73 properties)			43,895,000	

Notes to Office Properties

1. The economic interest of TrizecHahn's owning entity is 100% unless otherwise noted.
2. Occupancy reflects tenants in place, excluding commitments.
3. TrizecHahn has purchased subordinated mortgages and options to purchase these properties, which give it effective control over all aspects of these buildings including property management and leasing. Accordingly, these properties are excluded from operating statistics other than aggregate square footage calculations.
4. TrizecHahn manages these properties on a performance basis. As a result of the effective sale of Canada Place to the principal tenant, who is also the ground lessor, TrizecHahn retained an economic interest in only the residual, non-tenant owned space. TrizecHahn has an economic interest in First Stamford Place and participates in refinancing or sale proceeds. Accordingly, these properties are excluded from operating statistics other than aggregate square footage calculations.
5. TrizecHahn sold its 50% interest in this property in February 1998.
6. Excludes Hydro-Québec's condominium ownership of 190,000 square feet.
7. Excludes the Government of Quebec's condominium ownership of 51,000 square feet.
8. TrizecHahn is leasing the CN Tower for an initial 40-year period with two 15-year renewal options.
9. These properties were acquired subsequent to year end and are therefore excluded from the 1997 portfolio information.
10. Excludes condominium ownership.

TrizecHahn manages all of these properties except for 151 Front Street West.
In March 1998, TrizecHahn announced that pre-leasing had begun on two Canadian office developments: the 1.2 million square foot Bay-Adelaide Centre in Toronto and the 800,000 square foot Bankers Hall Phase II in Calgary.
In addition, TrizecHahn owns five sites totaling 40 acres held for potential office development or sale.
Properties acquired in the Washington, D.C. area in early 1998 include a further 3 million square feet of development potential.

Retail Centers

Name (Ownership %)[1]	Location	Year of completion/ renovation	Major/anchor stores	Total area (sq. ft.)[2]	Mall store area (sq. ft.)	Occupancy at Dec. 31 1997[3]
CALIFORNIA						
Downtown Plaza (50%)[4]	Sacramento	1971/93	Macy's (2)	1,166,000	662,000	91%
Fox Hills Mall (94%)	Culver City	1975/88	Macy's, JCPenney, Robinsons-May	889,000	337,000	74%
Horton Plaza	San Diego	1985/95	Macy's, Mervyn's, Nordstrom	800,000	439,000	97%
Los Cerritos Center (50%)	Cerritos	1971/95	Macy's, Mervyn's, Nordstrom Robinsons-May, Sears	1,249,000	448,000	85%
North County Fair (55%)	Escondido	1986	Macy's, Nordstrom, JCPenney, Robinsons-May (2), Sears	1,256,000	376,000	84%
Oakridge Mall (50%)	San Jose	1973/95	Macy's, Montgomery Ward, Sears	797,000	329,000	94%
Palm Desert Town Center[5]	Palm Desert	1983	Macy's (2), JCPenney, Robinsons-May (2)	869,000	374,000	88%
Parkway Plaza	El Cajon	1972/90	Mervyn's, JCPenney, Robinsons-May, Sears	1,032,000	429,000	86%
Plaza Pasadena* (48%)[6]	Pasadena	1980	Macy's, JC Penney	569,000	278,000	n.a.
Santa Anita Fashion Park (40%)	Arcadia	1974/94	Macy's, Nordstrom, JCPenney, Robinsons-May	1,097,000	393,000	83%
Santa Maria Town Center* (46%)	Santa Maria	1976/90	Gottschalk's, Robinsons-May, Sears	609,000	268,000	64%
Solano Mall	Fairfield	1981/85	Macy's (2), Mervyn's, JCPenney, Sears	1,012,000	353,000	76%
Sunnyvale Town Center* (50%)	Sunnyvale	1979/92	Macy's, Montgomery Ward, JCPenney	712,000	283,000	65%
The Oaks[5]	Thousand Oaks	1978/94	Macy's (2), JCPenney, Robinsons-May (2)	1,084,000	358,000	96%
The Village at Corte Madera (40%)	Corte Madera	1985	Macy's, Nordstrom	428,000	210,000	94%
University Towne Centre (74%)	San Diego	1977/84	Macy's, Nordstrom, Robinsons-May, Sears	1,033,000	439,000	98%
Valley Fair (50%)	San Jose/Santa Clara	1986/97	Macy's (2), Nordstrom	1,138,000	469,000	98%
CENTRAL U.S.						
Fashion Place Mall (95%)	Salt Lake City, Utah	1972/88	Dillard's, Nordstrom, Sears	948,000	382,000	95%
The Fashion Show Mall (25%)	Las Vegas, Nevada	1981/95	Dillard's, Macy's, Neiman Marcus, Robinsons-May, Saks Fifth Avenue	840,000	308,000	100%
Park Meadows	Littleton, Colorado	1996	Dillard's, Nordstrom, Joslins, Foley's, JCPenney[7]	1,614,000	593,000	96%
Prestonwood Town Center[6]	Dallas, Texas	1979/89	Dillard's, Lord & Taylor, Montgomery Ward, Mervyn's, Neiman Marcus, JCPenney	1,091,000	403,000	n.a.
Westdale Mall* (21%)	Cedar Rapids, Iowa	1979	Montgomery Ward, JCPenney, Von Maur, Younkers	854,000	383,000	83%
EASTERN U.S.						
Bridgewater Commons (50%)	Bridgewater, New Jersey	1988	Lord & Taylor, Macy's, Sterns	884,000	381,000	97%
Towson Town Center (65%)	Baltimore, Maryland	1959/92	Hecht's, Nordstrom	955,000	536,000	90%
PACIFIC NORTHWEST U.S.						
Capital Mall* (50%)	Olympia, Washington	1978	The Bon Marché, Lamonts, Mervyn's, JCPenney	602,000	239,000	78%
Total – Retail Centers (25 properties)				23,528,000	9,670,000	88%

Notes to Retail Centers

1. The economic interest of TrizecHahn's owning entity is 100% unless otherwise stated.
2. Includes area owned directly by major/anchor stores.
3. Occupancy reflects tenants in place, excluding commitments and temporary tenants.
4. Includes 286,033 sq. ft. of office and mixed-use space.
5. TrizecHahn manages these properties on a performance basis. Ownership interest is dependent on the results of operations and refinancing or sale proceeds of these properties after payment of a preferred return to the co-venturer or partner. Accordingly, these properties are excluded from operating statistics other than aggregate square footage calculations.
6. These properties are being strategically managed in anticipation of comprehensive redevelopment. Accordingly, these properties are excluded from operating statistics other than aggregate square footage calculations.
7. Scheduled to open in the fall of 1998.

* Mid-Market retail centers, five centers totaling 3,346,000 square feet.

TrizecHahn manages all of these properties except for The Fashion Show Mall.

Currently in planning or under development are three retail centers: Fashion Outlet of Las Vegas in Primm, Nevada (scheduled to open in July 1998), Desert Passage at Aladdin in Las Vegas, and Hollywood and Highland in Los Angeles.

In addition, TrizecHahn owns three sites totaling 380 acres held for potential retail center development or sale.

1997 Financial Highlights

For the years ended December 31 (U.S. $ millions, except per share amounts)	1997	Pro Forma* 1996	Change
Rental Revenue	**$ 714**	597	20%
Rental Income	**396**	339	17%
Cash Flow from Real Estate Operations	**176**	126	40%
Per share, basic	**$ 1.19**	0.92	29%
Per share, fully diluted	**$ 1.16**	0.89	30%
Net Income	**48**	25	92%
Per share, basic and fully diluted	**$ 0.32**	0.18	78%

At December 31 (U.S. $ millions)	1997	1996	Change
Real Estate Assets	**$ 5,130**	3,813	35%
Total Market Capitalization	**6,572**	5,438	21%
Net Debt to Market Capitalization	**43%**	37%	
Interest Coverage	**1.97:1**	1.72:1	

*See Note 1 to consolidated financial statements.

All dollar amounts shown in this report are in U.S. dollars unless otherwise noted.

Management's Discussion and Analysis of Operations and Financial Condition

The following should be read in conjunction with the consolidated financial statements and the notes thereto appearing later in this Annual Report.

Overview

TrizecHahn is a fully integrated growth-oriented real estate development and operating company. The Corporation is one of the largest publicly traded real estate companies in North America, with total assets of $5.9 billion and total market capitalization (including long-term debt) at December 31, 1997, of approximately $6.6 billion. At December 31, 1997, the Corporation owned interests in a portfolio of 79 properties containing approximately 63 million square feet, of which TrizecHahn's ownership interest was approximately 36 million square feet. Subsequent to December 31, 1997, the Corporation acquired interests in an additional 20 U.S. office properties, bringing its portfolio as at March 15, 1998 to 98 properties comprising 66 million square feet.

TrizecHahn has an established European operation as well as a satellite office in Tokyo. The Corporation is pursuing an international expansion program aimed at applying its North American real estate expertise to developing markets. TrizecHahn's investment outside of North America does not currently comprise a significant portion of its assets or cash flow.

Operating and Capital Strategies

TrizecHahn's operating strategy is focused on enhancing shareholder value by generating sustained growth in operating cash flow and creating realizable appreciation in real estate value. The Corporation believes it can achieve this goal by applying its core competencies of disciplined investing, superior property management and leasing, development expertise and strategic asset management to the following:

- opportunistically acquiring properties;
- developing and redeveloping properties in North America and in certain growing economies outside of North America;
- maximizing cash flow from existing properties; and
- continuing active asset management including sell discipline.

This multidimensional operating strategy should ensure a continued pipeline of growth opportunities in the short, medium and long term. TrizecHahn's operating strategy is supported by a prudent capital strategy which includes the following key elements:

- ensuring there is ample capital available at all times;
- utilizing an appropriate degree of leverage;
- allocating capital between product line (office, retail or other), investment type (acquisitions or developments), and geography (the U.S., Canada or international) based on the best risk-adjusted returns;
- actively managing its exposure to interest rate and foreign currency fluctuations; and
- managing capital at risk in international projects.

The discussion that follows aims to build understanding of how these strategies affect TrizecHahn's operating results and shareholder value. It also includes a review of the risks, opportunities and trends likely to have an impact on TrizecHahn's future performance.

Results of Operations

In 1997, TrizecHahn reported continued strong financial results, reflecting the success of its growth-oriented operating strategy. Cash flow from real estate operations, for the year ended December 31, 1997, was 40% higher than in 1996, accelerating the 26% increase over 1995. In order to provide a meaningful year-over-year comparison of real estate operating results, TrizecHahn's results for 1996 and prior years are presented on a pro forma basis as if the merger of Horsham Corporation and Trizec Corporation Ltd., which created TrizecHahn in the autumn of 1996 (the "Merger"), had occurred at the beginning of the year presented (see Notes 1 and 14 to the consolidated financial statements). Net income for 1997 is not directly comparable with 1996 due to significant and unusual accounting and merger-related adjustments. This review of 1997 operations focuses on the year-over-year changes, compared to the pro forma 1996 results, in the key components of cash flow from real estate operations, and then the other key components of net income.

Analysis of Cash Flow from Real Estate Operations

Cash flow from real estate operations was approximately $176 million, $1.19 per share ($1.16 fully diluted), for the year ended December 31, 1997, compared with $126 million, $0.92 per share ($0.89 fully diluted) on a pro forma basis for 1996. This significant increase was due primarily to the impact of acquisitions made in late 1996 and throughout 1997.

CASH FLOW FROM REAL ESTATE OPERATIONS
For the years ended December 31

($ millions, except per share amounts)	Change 1997–96	1997	Pro Forma 1996	1995
RENTAL INCOME				
Office properties:				
U.S.	$ 61	**149**	88	63
Canada	4	**105**	101	103
	65	**254**	189	166
U.S. retail centers:				
Major market	7	**129**	122	101
Mid-market	(15)	**13**	28	39
	(8)	**142**	150	140
TOTAL RENTAL INCOME	57	**396**	339	306
General and administrative expense	–	**(29)**	(29)	(26)
Interest expense, net	(6)	**(186)**	(180)	(178)
Current taxes	(1)	**(5)**	(4)	(2)
CASH FLOW FROM REAL ESTATE OPERATIONS (FFO)	$ 50	**176**	126	100
PER SHARE:				
Basic	$ 0.27	**1.19**	0.92	0.74
Fully diluted	$ 0.27	**1.16**	0.89	0.73

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), with the major differences from U.S. GAAP described in Note 15 to the consolidated financial statements. Specifically, the major differences are as follows: the Corporation uses the proportionate consolidation method of accounting for joint ventures rather than the cost or equity methods; carries its shares of Barrick at cost rather than at market value; follows the deferral method of accounting for income taxes rather than the liability method; and depreciates properties using the sinking fund method rather than the straight-line method.

In the U.S., The National Association of Real Estate Investment Trusts ("NAREIT") has adopted a measurement called Funds From Operations ("FFO") to supplement net income as a measure of operating performance. This measurement is considered to be a meaningful and useful measure of real estate operating performance. The Corporation's presentation of "Cash Flow from Real Estate Operations" is consistent with NAREIT's definition of FFO. FFO does not represent cash flow from operations as defined by Canadian GAAP. This measure is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity.

Rental Income

TrizecHahn derived approximately 64% of its total rental income from office properties and 36% from retail properties for the year ended December 31, 1997. Approximately 73% of this income was from properties in the United States and 27% from properties in Canada. A majority of the office space in TrizecHahn's office portfolio is in Class A properties located in central business districts ("CBD") of major North American cities such as Houston, New York, Calgary, Montreal, Dallas and, with a portfolio acquisition subsequent to year end, in the Washington, D.C. area. At December 31, 1997, the U.S. office portfolio comprised 33 buildings aggregating 28 million square feet. The Canadian office portfolio comprised 20 buildings aggregating 12 million square feet. The Corporation's retail portfolio consists of ownership in 25 U.S. retail centers comprising approximately 24 million square feet in nine states. These centers are primarily super-regional centers in major metropolitan areas, and cater to upper-income customers. Of the total retail portfolio square footage, 67% was located in California.

Rental income for the year ended December 31, 1997, was approximately $396 million, compared with $339 million in 1996 on a pro forma basis. Rental income consists of base rent, percentage rent and operating cost recoveries, less cost of operations and property taxes. The following table identifies the principal factors contributing to the improved rental income performance.

RENTAL INCOME CHANGE

($ millions)	Office portfolio	Retail portfolio	Total
Performance of comparable properties	$ 7	8	15
Acquisitions	70	3	73
Developments	–	12	12
Dispositions and other	(12)	(31)	(43)
Total increase (decrease) in rental income	$ 65	(8)	57

The increase in rental income from comparable properties (i.e. those properties owned at both December 31, 1997 and 1996, and in each case for a full fiscal year) was $15 million or 6% in 1997, primarily due to increased occupancy in both portfolios as markets continued to improve. In the office portfolio, the comparable properties growth was 5%, which reflects significant leasing activity and increasing rental rates in key markets such as Houston and Calgary. While this year-over-year growth was strong, it would be even greater if it reflected the benefit of operational and leasing improvements for those properties acquired in the second half of 1996 and throughout 1997. In the retail portfolio, growth of 7% was due to strong tenant sales, rental uplifts and increased occupancy from both in-line and specialty tenants.

The 1997 rental income was less than the annualized rental income for those properties held at December 31, 1997. Rental income from a significant number of acquisitions and several dispositions has been included for part of 1997. Eliminating asset dispositions and annualizing actual 1997 rental

income from properties acquired during 1997 would result in total rental income in 1997 of approximately $445 million. Rental income in 1998 will benefit from the approximately $500 million acquisition of The JBG Companies' office portfolio. This portfolio comprises approximately 3.7 million square feet located in Washington, D.C., Virginia and Maryland.

Office portfolio

Office rental income increased 34% to $254 million in 1997, from $189 million in 1996 on a pro forma basis. Most of this increase was due to the acquisition, primarily in the U.S., of interests in office properties of 4.3 million square feet in late 1996 and 13.4 million square feet throughout 1997. Overall, the proportion of office income from the U.S. to total office income increased to 59%, from 47% in 1996.

In the office portfolio, for the year ended December 31, 1997, the Corporation signed leases totaling 3.7 million square feet, of which TrizecHahn's proportionate interest was 3.3 million square feet, consisting of 2.4 million square feet in the U.S. and 900,000 square feet in Canada. This strong leasing activity raised total office portfolio occupancy by 3% to 89%. Occupancy at December 31, 1997, as compared to December 31, 1996, increased from 92% to 93% in Canada, while in the U.S. it increased from 82% to 87%. During 1997, the improvement in rental income as a result of contractual rent increases in existing leases was partially offset by rental rates on new and renewing leases being lower than on expiring leases by slightly less than $1 per square foot. The recent trend has been toward a continued narrowing of the gap between expiring and renewing rental rates, with rolldown in rents improving from $3 per square foot in 1994 and $2 per square foot in 1995 and 1996. This reflects the continued improvement in the market and the impact of space rolling over at properties with leases in place at rents below the current market.

Retail portfolio

TrizecHahn's major market retail centers reported a 6% increase in rental income to $129 million, compared with $122 million in 1996 on a pro forma basis. The overall decrease of 5% in rental income from retail centers – $142 million compared to $150 million in 1996 – was due to the effect of a significant number of dispositions in 1997 and late 1996 within the portfolio. Consistent with TrizecHahn's strategy of focusing on super-regional centers, 91% of total retail rental income was derived from the major market centers in 1997 versus 81% in 1996. Rental income from the mid-market portfolio declined $15 million, or approximately 54%, due to the disposition of almost 64% of this segment's leasable area since the beginning of 1996. A full year of operations at Park Meadows and the acquisition of an additional ownership interest in Towson Town Center also contributed to the increase in major market center rental income.

For the retail center portfolio overall, there was positive sales growth of approximately 11%, as average sales improved from $331 per square foot in 1996 to $366 per square foot in 1997. Over the same period, major market sales increased from $364 to $386 per square foot, and mid-market sales increased from $216 to $221 per square foot.

In addition, rental income improvements in the retail centers resulted from rental uplifts of approximately $7 per square foot on new and renewing leases. During 1997, TrizecHahn leased 985,000 square feet in its retail center portfolio, of which its proportionate interest was 650,000 square feet. Combined occupancy (excluding specialty leasing), at December 31, 1997, was 88% (91% for major market centers and 73% for mid-market centers), an increase of 3% from the combined occupancy level at December 31, 1996 (87% for major market and 75% for mid-market).

TrizecHahn's occupancy statistics exclude specialty leasing and temporary tenants occupying premises for less than a year. Including specialty leasing and temporary tenants, the Corporation's occupancy was 96% at December 31, 1997, compared to 92% at December 31, 1996. TrizecHahn has a dedicated specialty leasing program, which was created to ensure a durable cash flow stream from these specialty tenants, to effectively use space that would otherwise remain vacant and to enable tenants to test their success prior to signing permanent leases. Management believes that as long as this strategy continues to generate a recurring contribution to cash flow in the future, occupancy levels should include such tenants.

Interest Expense, Net

The year-over-year improvement in rental income in 1997, as compared with 1996, was slightly offset by higher net interest expense. The following principal factors accounted for this increase.

ANALYSIS OF INCREASE IN INTEREST EXPENSE, NET
($ millions)

Acquisitions	$ 31
Dispositions	(16)
Interest income	15
Senior Notes – partial redemption	(5)
Unsecured debentures issued	13
Loan paydowns and other	(32)
Total increase in interest expense, net	$ 6

The U.S. office property acquisitions in the latter part of 1996 and throughout 1997 contributed to higher interest expense in 1997. The disposition of a number of retail centers in 1996 and 1997 significantly decreased interest expense. Interest income earned on cash balances and short-term investments decreased in 1997 primarily due to office acquisitions.

Several capital transactions were executed during 1997, which had a favorable impact on interest expense. The net proceeds of $164 million from an equity offering were used in part to redeem, on June 30, 1997, pursuant to their terms, $83 million of the 10.875% Senior Notes due October 2005. Unsecured debentures in the amount of $87 million (C$125 million) and $123 million (C$175 million) issued in May 1997, at fixed interest rates of 7.45% and 7.95% respectively, were subsequently swapped into variable rate debt subject to interest rate caps. In July 1997, unsecured debentures in the amount of $175 million (C$250 million) were issued at a rate of 6%. The proceeds from these offerings were used to pay down near-term maturity, high-rate debt, in particular the 11% mortgage on the Corporation's Place Ville Marie office complex in Montreal, which was due to mature in 1999. With these transactions, the Corporation's overall weighted average interest rate was reduced to 7.85% at December 31, 1997, from 8.50% at the end of 1996.

The interest coverage ratio (defined as rental income less general and administrative expense divided by interest expense, net) improved to 1.97:1 for the year ended December 31, 1997, from 1.72:1 in 1996 and 1.57:1 in 1995. This improvement was due primarily to improved underlying operations and cash flow.

Interest expense, net, includes the effects of a significant number of acquisitions and dispositions for a partial year. Annualizing the actual interest expense on property acquisitions, eliminating interest expense on assets disposed of, and annualizing the impact of the capital transactions noted above for an entire year would result in net interest expense of approximately $209 million in 1997.

Analysis of Net Income

Net income in 1997 was $48 million, $0.32 per share, up from $25 million, $0.18 per share on a pro forma basis in 1996. The historical financial statements reflect net income in 1996 of $6 million or $0.05 per share.

In 1997, net income before unusual items increased $27 million to $68 million compared with pro forma 1996. This improvement is primarily attributable to the significant increase in cash flow from real estate operations. The following table summarizes the key recurring and non-recurring components of net income for the years ended December 31, 1997 and 1996 (pro forma and historical).

NET INCOME ANALYSIS

For the years ended December 31 ($ millions)	1997	Pro Forma 1996	Historical 1996
CASH FLOW FROM REAL ESTATE OPERATIONS	**$ 176**	126	38
Depreciation expense	**(50)**	(40)	(8)
Exchangeable debentures interest expense, net	**(20)**	(28)	(28)
Deferred income taxes – operations	**(38)**	(17)	3
	68	41	5
Loss on early debt retirement	**(25)**	–	–
Clark – gain on sale/loss from operations, net of tax	**5**	(8)	(8)
Other items, net of tax	**–**	(8)	9
NET INCOME	**$ 48**	25	6

Depreciation expense was $10 million higher than in the prior year, due in part to the acquisitions made in 1997 and the second half of 1996. Depreciation expense also increases with the build-up of tenant installation costs, which are amortized over the terms of the respective leases, and with the compounding effect of applying the sinking fund method of depreciation.

The decrease in exchangeable debentures interest expense, net, is attributable to the Corporation's inclusion of dividend income from Barrick of approximately $9 million for the year ended December 31, 1997, in exchangeable debentures interest expense. The recognition of dividends from Barrick in income during 1997 is the result of the Corporation's adoption of the cost method of accounting for its investment in Barrick, effective December 31, 1996. In 1996, under the equity method of accounting, dividends received of approximately $8 million were not recognized in income.

TrizecHahn's provision for deferred income taxes against operations was approximately 34% of net income before taxes in 1997. This rate is lower than the combined basic Canadian federal and provincial income tax rate of approximately 44%, largely due to lower income tax rates applicable to income earned from operations in the U.S. and the utilization of previously unrecognized tax losses against Canadian income. The actual cash taxes paid, which are deducted from cash flow from real estate operations, relate to small amounts of federal alternative minimum tax and state income taxes in the U.S. and large corporations tax in Canada.

In June 1997, the Corporation redeemed, pursuant to their terms, $83 million of the principal amount of the 10.875% Senior Notes due October 2005. In August 1997, the Corporation retired the 11% mortgage indebtedness related to the Place Ville Marie office complex in Montreal, Quebec. As a consequence of these early retirements, the Corporation paid redemption premiums resulting in a charge to income of approximately $25 million.

In November 1997, the Corporation completed the sale of its investment in Clark USA, Inc., which was classified as a discontinued operation. The disposal of this investment for cash proceeds of approximately $116 million resulted in a gain of $5 million, before income taxes of $23.1 million. The Corporation utilized previously unrecognized tax-loss carry-forwards to

offset income taxes otherwise payable. Under Canadian GAAP, the Corporation has included the utilization of the benefit of tax losses in continuing operations. The $8 million loss from operations of Clark in 1996 was comprised of equity accounting losses of $26 million, net of dilution gains of $18 million.

The above net income analysis table isolates, on a net-of-tax basis, certain one-time and non-cash charges to income related to the period prior to the Merger and to the Merger itself. These net income components are more fully detailed in the consolidated financial statements and notes. The historical financial statements presented as 1996 comparatives are those of Horsham Corporation (renamed TrizecHahn). These statements reflect Horsham's 48% interest in Trizec Corporation Ltd., accounted for on the equity method for the period January 1, 1996 to October 31, 1996, and consolidation of 100% of Trizec's operations from November 1, 1996 to December 31, 1996, on a line-by-line basis. As previously noted, due to the nature of the historical financial statements, the pro forma presentation was provided and is utilized for year-over-year comparability in order to assist users in their assessment of TrizecHahn's ongoing real estate operations.

Acquisition and Development Activity

As reflected in the consolidated statement of cash flows, the following property investment activities occurred in 1997:

PROPERTY INVESTMENT ANALYSIS
($ millions)

Acquisitions of rental properties	$ 1,188
Development expenditures	93
Tenant installation and capital expenditures (excluding free rent granted)	62
Dispositions of rental properties	(86)
Net property investment activities	$ 1,257

The $1.2 billion of property acquisitions relates primarily to the office portfolio, where 14 properties totaling 9.9 million square feet were acquired during 1997. This also includes the acquisition of Number One Poultry, a landmark commercial and mixed-use property in the City of London. During the first quarter of 1998, the Corporation completed the acquisition of The JBG Companies' office portfolio and also announced the acquisition, at a cost of more than $500 million, of the approximately 6 million square foot Bell Canada portfolio in Ontario and Quebec.

Development expenditures primarily reflect activity at Number One Poultry and at Fashion Outlet of Las Vegas, which will be completed in the spring and summer respectively of 1998. Non-strategic properties totaling $86 million were disposed of, including three retail centers. Subsequent to year end, as part of an overall settlement of all of its outstanding litigation with Husky Oil Operations Ltd. ("Husky"), the Corporation sold its 50% interest in the Calgary office property, Western Canadian Place, to Husky for sale proceeds of approximately $89 million and the receipt of $17 million of previously restricted joint venture funds.

In addition to the direct property investment activity noted above, the Corporation purchased, at a discount, a subordinated mortgage and an option to purchase the 3.5 million square foot Sears Tower in Chicago for $70 million. These rights give TrizecHahn effective control over all aspects of the building, including property management and leasing, and effectively capture potential future value appreciation in the building. The Corporation's mortgage is subordinate to an existing non-recourse first mortgage plus accrued interest of approximately $735 million, which is serviced only to the extent of available cash flow. At year end, the principal plus accrued interest on the subordinated mortgage was approximately $294 million. As significantly below-market

leases roll over in the near term in an improving Chicago market, the value of the building should appreciate to an amount in excess of the total of the first mortgage position and TrizecHahn's investment.

Consistent with prior years, the Corporation valued its portfolio of rental properties, confirming that the fair market value of the portfolio exceeded its carrying value. For 1997 and future years, the Corporation has adopted a methodology for reviewing the fair market value of the portfolio whereby approximately one-third of the internal portfolio valuations are independently assessed each year, on a three-year rotational basis. Landauer Associates reviewed and concurred with the portfolio valuations as determined by the Corporation at December 31, 1997.

Tenant Installation Costs

TrizecHahn's operating properties require periodic investments of capital for tenant installation costs related to new and renewal leasing. The absolute amount of tenant installation costs is less relevant than the cost on a per square foot basis, because the former measure is impacted by the square feet of leases signed in any given period. Tenant installation costs consist of tenant allowances (including free rent granted) and leasing commissions. The Corporation expects that tenant installation costs should decline in the near term on a per square foot basis as market conditions in its target markets continue to improve. In total dollars, the Corporation expects that the lease-up of vacant space in its recent acquisitions may contribute to higher spending on tenant installation costs. The following table reflects tenant installation costs for both new leases and renewing leases.

TENANT INSTALLATION COSTS

For the years ended December 31

(in millions, except per square foot amounts)	1997	Pro Forma 1996	Pro Forma 1995
OFFICE PROPERTIES			
Square feet leased*	**3.3**	3.1	2.3
Tenant installation costs	**$ 46**	40	24
Tenant installation costs per square foot	**$ 14**	13	11
Tenant allowance costs per square foot	**$ 11**	10	8
RETAIL CENTERS			
Square feet leased*	**0.7**	0.6	0.7
Tenant installation costs	**$ 8**	8	12
Tenant installation costs per square foot	**$ 12**	14	18
Tenant allowance costs per square foot	**$ 7**	8	10

*Represents the Corporation's proportionate share of square feet leased.

During 1997, of the $46 million of office and $8 million of retail tenant installation costs, only $8 million ($6 per square foot) and $2 million ($6 per square foot) respectively were incurred to renew existing tenants.

Capital Expenditures

To maintain the quality of its properties and preserve long-term value, TrizecHahn pursues an ongoing program of capital expenditures, certain of which are not recoverable from tenants.

In 1997, recurring capital expenditures for the office and retail portfolio, on a per square foot owned basis, were $0.24 and $0.27 respectively. In addition to routine capital expenditures, unique expenditures were made in connection with non-recurring events such as code-required enhancements, and upgrades to common areas, lobbies and elevators. For 1997, total recurring and non-recurring capital expenditures for the office and retail portfolio totaled $14 million and

$2 million respectively, on a proportionate share basis, as compared to $8 million and $5 million in 1996. The Corporation believes that routine recurring capital expenditures for the combined retail and office portfolio will average approximately $0.20 to $0.30 per square foot owned on an annual basis.

Liquidity and Capital Structure

Liquidity

The Corporation's objective is to ensure, in advance, that there are ample capital resources to allow it to execute its business plan. The Corporation's significant liquidity provides greater certainty of execution which, in turn, gives the Corporation a competitive advantage in its negotiations for acquisitions or development investments. The conversion of lower-yielding, non-real estate assets into cash for redeployment into higher-yielding real estate investments supports this objective. The sale of Clark, in November 1997, raised cash proceeds of approximately $116 million. Subsequent to year end, the Corporation sold its entire unencumbered interest in Barrick, 28.2 million common shares. The shares were sold to the public by way of an underwritten secondary offering, with 24.9 million shares being sold on an installment basis and approximately 60% of the selling price received on closing, with the balance receivable in February 1999. The Corporation has put in place a revolving credit facility secured by the installment receivable, making immediately available total net cash of approximately $488 million. In addition, the sale of Western Canadian Place subsequent to year end provided an additional $106 million of cash.

At December 31, 1997, TrizecHahn had $193 million in cash and short-term investments and had $197 million available in undrawn committed credit facilities. In addition, the Corporation has a $250 million revolving credit facility, with an institutional lender, to facilitate property acquisitions and refinancings, of which $176 million remained undrawn at December 31, 1997. When combined with the Barrick and Western Canadian Place net sale proceeds, in excess of $1 billion of liquidity is available to support investment initiatives, provide financial flexibility to address debt maturities, and to facilitate financing on favorable terms. The completion of the acquisition of The JBG Companies' office portfolio subsequent to the year end resulted in the use of approximately $200 million of cash.

Capital Base

TrizecHahn had an equity market capitalization of approximately $3.5 billion, based on the share price on the New York Stock Exchange as at December 31, 1997. This ranks TrizecHahn among the largest real estate companies in North America based on year end market capitalization. In addition, in 1997 TrizecHahn was the most actively traded real estate stock on North American exchanges. This combination of large market capitalization and trading liquidity provides the Corporation with an enhanced ability to access the public capital markets.

During the year, the Corporation acquired a number of real estate development projects in the United Kingdom and Germany from Advanta Management AG, a third party, paid for through the issuance of approximately 5.5 million subordinate voting shares with an ascribed value of $115 million. The Corporation also issued, in April 1997, 8.6 million subordinate voting shares in a public offering at a price of $20 per share, for net proceeds to the Corporation of $164 million.

The Corporation intends to use its cash flow for growth through acquisitions, developments and redevelopments. Therefore, it has established a dividend payout level that is consistent with a growth-oriented company in which capital is retained for reinvestment in real estate opportunities. In 1997, the Corporation paid dividends aggregating $0.25 per share. Subsequent to year end, the Corporation declared a semi-annual dividend of $0.15 per share.

Leverage

The Corporation continues to follow a conservative financial strategy by strengthening its balance sheet and maintaining prudent leverage. Management is oriented toward retaining capital for reinvestment in properties to expand its business, and thereby provide greater enhancement of shareholder value, as an alternative to significantly reducing debt. Therefore, in the current environment, the Corporation has a target leverage ratio of between 50% and 60%. The following leverage ratios at December 31, 1997, demonstrate this.

LEVERAGE RATIOS

($ millions)	Pro Forma 1997	**1997**	1996
Net debt to total capital:			
– with investment in Barrick at book value	57%	**63%**	60%
– with investment in unencumbered Barrick at market value	n/a	**59%**	51%
Net debt to market capitalization	37%	**43%**	37%

The leverage ratio is the ratio of long-term debt less cash and short-term investments ("net debt") to the sum of net debt and shareholders' equity ("capital") under different assumptions. The pro forma 1997 ratio includes the impact of the post year-end Barrick sale. The exchangeable debentures are excluded from the calculations as it is contemplated that they will be satisfied through the delivery of the underlying Barrick shares.

Long-term Debt

Long-term debt, at December 31, 1997, was approximately $3.0 billion. As reflected in the consolidated statement of cash flows, the following long-term debt financing activities occurred in 1997.

LONG-TERM DEBT ANALYSIS

($ millions)	
Acquisition financing	$ 686
Property financing	321
Development financing	24
Unsecured debentures issued	396
Debt repaid on dispositions	(36)
Regular principal repayments	(24)
Debt maturities and paydowns	(734)
Net long-term debt financing activities	$ 633

During 1997, the Corporation completed financings aggregating in excess of $1.4 billion. Property related financings of $1 billion were arranged primarily in connection with acquisitions. On May 21, 1997, the Corporation completed a public offering of C$125 million of 7.45% unsecured debentures due 2004 and C$175 million of 7.95% unsecured debentures due 2007. On July 30, 1997, the Corporation completed a public offering of C$250 million of 6.00% unsecured debentures due 2002. Net proceeds from the unsecured debt and equity offerings were used primarily to reduce existing indebtedness. In addition to reducing the Corporation's overall weighted average interest rate from 8.50% to 7.85%, these transactions have increased the weighted average life to maturity to six years at December 31, 1997, as compared to five years at December 31, 1996. The unsecured debentures issued in Canada also highlighted the Corporation's ability to selectively arbitrage between U.S. and Canadian debt capital markets, generating optimum financing terms.

Composition

At December 31, 1997, collateralized rental property loans totaled $2.4 billion. Of these loans, approximately $227 million was collateralized by properties located in Canada and $2.2 billion was collateralized by properties located in the United States. Of the collateralized debt, $1.4 billion was collateralized by the office portfolio and $1 billion by the retail portfolio. The remaining $625 million consisted primarily of four facilities: the $168 million Senior Notes and three Canadian dollar denominated unsecured debentures issued in 1997 totaling $396 million. Of the total long-term debt, $2.4 billion or 80% was denominated in U.S. dollars and the balance of approximately $612 million, or 20%, was denominated in Canadian dollars.

At December 31, 1997, approximately $989 million of the Corporation's long-term debt was floating rate debt. Due to its active asset management and redevelopment strategy, the Corporation intentionally keeps a portion of its debt on a floating rate basis. This gives TrizecHahn flexibility for sales, redevelopments and refinancing without high prepayment penalties once lease up strategies are completed. To better maintain the cost-effectiveness and flexibility of its capital plan, the Corporation continually monitors short-term and long-term interest rates, entering into long-term fixed rate loan arrangements or interest rate swap and cap contracts to manage the interest rate risk on its long-term debt and the impact on cash flow of rising interest rates. It is the Corporation's objective, based on the current interest rate environment as well as its asset sale and financing plan, to maintain unhedged floating rate debt at between 20% and 30% of total long-term debt. At December 31, 1997, approximately $600 million or 20% of the Corporation's long-term debt was on an unhedged floating rate basis. Based on debt levels and interest rates in effect at December 31, 1997, a change in the interest rate of 1% (100 basis points) would have an approximately $10 million annualized impact on gross interest expense, which would be partially offset by higher interest income on the Corporation's cash balances invested.

Refinancing

Approximately 13%, or $408 million, of the Corporation's long-term debt matures in 1998. In addition, maturities in the subsequent four years amount to $1.1 billion or 38% of total long-term debt, as described in Note 6 to the consolidated financial statements. Over this five-year period, approximately 42% of the debt maturities relate to office properties, 39% relate to retail, and the balance of 19% to other loans. TrizecHahn plans to meet these maturing debt obligations through refinancing of its debt with other indebtedness, existing cash and available credit, cash flow from operations, and sales of non-strategic assets.

Financing for real estate during 1997 continued to benefit from improvement in real estate markets, renewed participation by traditional providers of real estate capital (such as insurance companies and pension funds), lower current interest rates and narrower corporate borrowing spreads. Management believes these factors will continue to favorably impact refinancing terms, execution and pricing in 1998. This expectation has been confirmed by the Corporation's late-1997 acquisition financing transactions, whereby approximately $400 million was obtained at average interest rates of 7.2% for an average term of 6.7 years, as compared with the Corporation's weighted average fixed rate collateralized property loans of 8.17% at year end.

Outlook: Risks and Opportunities

Office

The performance of TrizecHahn's office portfolio is affected by the supply of, and demand for, office space. Macroeconomic conditions such as current and expected growth in the economy, business and consumer confidence and employment levels drive this demand. In 1997, there was little new CBD office development in North America. Continued broad-based improvement in the economy resulted in generally lower vacancy rates. Excess supply in the CBD office markets is gradually being depleted as a result of positive absorption, the technological obsolescence of older buildings and the conversion of existing space to other uses.

Management expects a continuation of the above trends in 1998. Management also believes that these trends will benefit TrizecHahn's office portfolio as markets move toward supply and demand equilibrium. As markets approach this balance, it is expected that rental rates will increase, as experienced in certain target markets during 1997. In 1997, leases expired at an average rate of $10 net rent per square foot and were generally being rolled over at an average net rent of $9. In 1998, lease expirations will total approximately 368,000 and 1,684,000 square feet, respectively, in the Canadian and U.S. office portfolios, both at an average net rent per square foot of approximately $10. Overall, the rental rates on leases expiring in 1998 are expected to be at or slightly above current market rates. Rental revenue will also benefit from contractual steps on existing leases in place, which amount to approximately $8 million in 1998. Aggregate contractual increases in office rents, for the five years ending December 31, 2002, will amount to approximately $94 million on a cumulative basis.

Over the next five years, scheduled lease expirations in the office portfolio will average approximately 10% of occupied space annually. In addition, the vacant space in the office portfolio represents an opportunity to increase cash flow from improved leasing efforts, especially in the recently acquired properties.

Retail

From a macroeconomic perspective, management believes that the 1998 outlook for the Corporation's well-positioned retail portfolio continues to be positive. A favorable interest rate environment, continued growth in the U.S. economy and consumer confidence should translate into increased spending at TrizecHahn's retail centers.

Additional factors specific to TrizecHahn's retail centers provide the basis for a positive outlook in 1998. All of the Corporation's centers are regional or super-regional, which benefit from competitive barriers to entry, and sell merchandise that historically has not lent itself to discount formats. TrizecHahn's retail centers are located in trade areas that have high household disposable income and other demographic characteristics favorable to consumer spending. In addition, 17 of the centers, representing 67% of the gross leasable area, are located in California. This geographic focus should have a positive impact on retail portfolio results as the California economy continues its expected growth. The centers have significant diversity in their tenant base of over 3,000 stores, with relatively limited exposure to any one tenant and limited lease rollover exposure over the next several years (9% of occupied space expires in 1998 and an average of 8% expires over the next five years). Aggregate contractual increases in retail minimum rents for the five years ending December 31, 2002, for existing leases in place, amount to approximately $36 million on a cumulative basis.

The Corporation's expiring rents are, on average, well below current market rents. In 1998, approximately 558,000 square feet of contractual leases will expire in the major market centers, at an average rate of $24 per square foot. In 1997, the average uplift in net rental rates achieved upon re-leasing expiring space was approximately $7 per square foot. In 1997, major market sales per square foot averaged $386, while the ratio of tenants' occupancy costs to sales averaged approximately 12%. This ratio is at the low end of the range typical in the industry, indicating some additional capacity for tenants to pay more rent before affecting their profitability.

Development

As markets and real estate fundamentals improve, management expects that additional developments will be pursued in the near term. By their very nature, existing or future development activities entail certain risks, including the expenditure of funds on projects that may not come to fruition; the risk that development costs of a project may exceed original estimates, possibly making the project uneconomic; the risk that occupancy rates and rents at a completed project will be less than anticipated; the risk that operating expenses of a completed development will be higher than anticipated; and the risk that permits and other governmental approvals will not be obtained.

The establishment of the TrizecHahn Development division to oversee and coordinate the Corporation's expanding program of domestic and international real estate development projects on a prudent basis is focused on ensuring that projected financial returns are achieved. Effective market analysis, securing significant pre-leasing commitments from tenants, negotiating reliable construction contract pricing and pre-arranging flexible construction financing are among the methods used by the Corporation to achieve desired returns.

Consistent with its objective of producing sustainable growth, the Corporation is pursing an international expansion program on a disciplined basis. The international strategy is aimed at applying the Corporation's North American development, management, marketing and leasing expertise in certain growing economies outside North America. The Corporation intends to concentrate on opportunities in Europe, South America and Asia that meet the Corporation's risk-adjusted return requirements. The Corporation is attracted to these regions by the development opportunities available, the increase in global spending power, the shortage of supply of high-quality, well-merchandised retail centers, and the relative lack of specialized knowledge of marketing, leasing and retailing. The Corporation intends to invest capital cautiously and to ensure exit strategies exist for each planned investment, given the additional political and economic risk considerations.

Year 2000

In relative terms, the commercial real estate industry is less technologically dependent than certain other industry sectors. The Corporation has undertaken a comprehensive review of its own operations and financial reporting systems and is of the view that any internal Year 2000 issues are being adequately addressed in a timely manner and should not have a material impact on the Corporation's operations or financial reporting.

Nonetheless, given the implicit business interdependencies that exist with tenants, suppliers, financial intermediaries and other third parties, which are all also impacted by the Year 2000 issue, the Corporation, despite its own commitment to manage and mitigate risk, cannot with absolute assurance quantify all financial and operational consequences related to this issue. At this next stage, the Corporation is assessing the Year 2000 readiness of its key third-party relationships, primarily its tenants'

exposure to this issue, and will formulate appropriate strategies based on these findings.

Overall Outlook

In 1997, a number of important initiatives were undertaken as part of the Corporation's mandate to create a focused, highly disciplined and performance-oriented real estate operating company with the human and financial resources to execute its business plan. These initiatives, which will benefit 1998 and future years, can be summarized as follows:

- The Corporation has a disciplined and active ongoing asset management program, whereby management routinely reviews its portfolio and sells those assets where value has been enhanced. This skill was refined during the past three years when the Corporation disposed of over $600 million of non-core, low-growth assets.
- Management fulfilled its promise of becoming a pure real estate company by selling its shares of Clark and, in February 1998, its unencumbered stake in Barrick.
- The Corporation continued to demonstrate its investing discipline by completing $1.2 billion in desirable acquisitions while rejecting a total of over $5 billion worth of potential acquisitions in 1997 that did not meet the Corporation's financial return criteria.
- In anticipation of the evolving real estate cycle, the Corporation announced the formation of the TrizecHahn Development division.
- The purchase of Advanta Management AG in Europe and a new focus on Japan are important steps in creating growth in markets outside North America.

TrizecHahn achieved significant improvements in rental income and cash flow from operations in 1997. Office acquisitions with attractive returns and growth potential contributed to these improvements in quantitative terms and, in combination with asset dispositions, improved the quality and durability of the Corporation's future cash flow. The Corporation's strategy of obtaining critical mass in large, growing markets provides further leverage to reduce costs and take advantage of leasing opportunities.

The Corporation's challenge for 1998 and beyond will be to continue applying its financial strength and expertise to the development of new opportunities, both in North America and internationally, to achieve its mandate of creating long-term shareholder value.

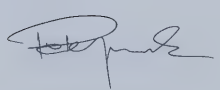
Consolidated Balance Sheets

As at December 31 (U.S. $ millions)	Note	1997	1996
ASSETS			
Properties	3	**$ 4,757.2**	3,574.5
Cash and short-term investments		**193.4**	404.2
Other assets	4	**372.4**	238.4
Investment in Barrick	2	**552.2**	552.2
Investment in Clark	5	**–**	108.1
		$ 5,875.2	4,877.4
LIABILITIES			
Long-term debt	6	**$ 3,029.4**	2,418.5
Exchangeable debentures	7		
– Carrying amount		**564.5**	855.0
– Deferred amount		**310.5**	20.0
Accounts payable and accrued liabilities		**279.3**	215.3
		4,183.7	3,508.8
DEFERRED INCOME TAXES		**38.3**	–
SHAREHOLDERS' EQUITY	9	**1,653.2**	1,368.6
		$ 5,875.2	4,877.4

Subsequent events (Note 2)

See accompanying notes to consolidated financial statements

On behalf of the Board:



PETER MUNK
Director

GREGORY C. WILKINS
Director

Consolidated Statements of Income

For the years ended December 31 (U.S. $ millions, except per share amounts)	Note	1997	Pro Forma (Note 1) 1996	1996
RENTAL OPERATIONS				
Rental revenue		**$ 713.7**	597.1	112.1
Operating expenses		**(243.3)**	(202.3)	(35.8)
Property taxes		**(74.3)**	(56.2)	(13.5)
RENTAL INCOME		**396.1**	338.6	62.8
General and administrative expense		**(29.4)**	(28.6)	(12.0)
Interest expense, net	6	**(186.1)**	(180.5)	(12.5)
REAL ESTATE OPERATING INCOME BEFORE THE FOLLOWING ITEMS		**180.6**	129.5	38.3
Depreciation expense		**(50.1)**	(39.9)	(8.0)
Exchangeable debentures interest expense, net		**(19.9)**	(28.4)	(28.4)
Loss on early debt retirement and other, net	10	**(25.1)**	(69.8)	(69.8)
Income and other corporate taxes	8			
– Ongoing operations		**(42.7)**	44.5	67.5
– Utilization of tax-loss carry-forwards on the sale of Clark		**23.1**	–	–
Share of net income of Barrick		**–**	31.4	31.4
Share of net income of Trizec	14	**–**	–	17.4
Exchangeable debentures revaluation	7	**–**	(35.0)	(35.0)
INCOME FROM CONTINUING OPERATIONS		**65.9**	32.3	13.4
DISCONTINUED OPERATIONS OF CLARK	5			
Gain on sale/(Operations)		**5.0**	(7.6)	(7.6)
Income taxes		**(23.1)**	–	–
		(18.1)	(7.6)	(7.6)
NET INCOME		**$ 47.8**	24.7	5.8
INCOME PER SHARE FROM CONTINUING OPERATIONS	1			
Basic and fully diluted		**$ 0.45**	0.24	0.12
NET INCOME PER SHARE	1			
Basic and fully diluted		**$ 0.32**	0.18	0.05

See accompanying notes to consolidated financial statements

Consolidated Statements of Retained Earnings

For the years ended December 31 (U.S. $ millions)	Note	1997	1996
RETAINED EARNINGS, BEGINNING OF YEAR		**$ 533.1**	534.6
NET INCOME		**47.8**	5.8
DIVIDENDS	9	**(36.4)**	(7.3)
RETAINED EARNINGS, END OF YEAR		**$ 544.5**	533.1

Consolidated Statements of Cash Flow from Real Estate Operations

For the years ended December 31 (U.S. $ millions, except per share amounts)	Note	1997	Pro Forma (Note 1) 1996	1996
REAL ESTATE OPERATING INCOME		**$ 180.6**	129.5	38.3
Current taxes	8	**(4.4)**	(3.7)	(0.7)
CASH FLOW FROM REAL ESTATE OPERATIONS		**$ 176.2**	125.8	37.6
CASH FLOW FROM REAL ESTATE OPERATIONS PER SHARE	1			
Basic		**$ 1.19**	0.92	
Fully diluted		**$ 1.16**	0.89	

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31 (U.S. $ millions)	Note	1997	Pro Forma (Note 1) 1996	1996
Cash flow from (applied to)				
OPERATING ACTIVITIES				
Net income		**$ 47.8**	24.7	5.8
Non-cash items				
Depreciation expense		**50.1**	39.9	8.0
Deferred income taxes	8	**38.3**	(48.2)	(68.2)
Discontinued operations of Clark	5	**(5.0)**	7.6	7.6
Share of affiliates' net income (net of dividends)		**–**	(23.2)	(40.6)
Dilution gains and other, net		**–**	69.8	69.8
Exchangeable debentures revaluation		**–**	35.0	35.0
Net change in operating working capital	4	**(5.9)**	(17.7)	10.2
Total operating cash flows		**125.3**	87.9	27.6
FINANCING ACTIVITIES				
Long-term debt				
Acquisition financing		**686.4**	205.0	205.0
Development financing		**24.2**	99.7	5.6
Property financings		**320.8**	123.6	107.3
Unsecured debentures issued		**395.7**	–	–
Principal repayments		**(757.5)**	(339.7)	(263.4)
Repaid on dispositions		**(36.0)**	(206.9)	(147.8)
Exchangeable debentures issued	7	**–**	264.0	264.0
Issue of shares	9	**293.8**	12.9	12.9
Dividends paid		**(36.4)**	(7.3)	(7.3)
Total financing cash flows		**891.0**	151.3	176.3
TOTAL OPERATING AND FINANCING ACTIVITIES		**1,016.3**	239.2	203.9
INVESTING ACTIVITIES				
Properties				
Acquisitions		**(1,188.2)**	(333.2)	(333.2)
Development expenditures		**(93.2)**	(124.9)	(18.7)
Tenant installation costs		**(45.6)**	(41.7)	(10.0)
Capital expenditures		**(16.2)**	(15.6)	(6.2)
Dispositions		**86.1**	330.0	221.7
Investment in Sears Tower	4	**(70.0)**	–	–
Proceeds from sale of Investment in Clark		**115.6**	–	–
Funds invested in other assets and liabilities		**(15.6)**	29.8	9.3
Acquisition of Trizec	14	**–**	–	90.6
Total investing cash flows		**(1,227.1)**	(155.6)	(46.5)
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS		**(210.8)**	$ 83.6	157.4
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR		**404.2**		246.8
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR		**$ 193.4**		404.2

See accompanying notes to consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 1997 and 1996

(tabular amounts in U.S. $ millions, except per share amounts)

1. Significant Accounting Policies

The consolidated financial statements of TrizecHahn Corporation ("TrizecHahn" or the "Corporation") are prepared in accordance with generally accepted accounting principles as recommended by the Canadian Institute of Chartered Accountants ("Canadian GAAP"). These principles differ in certain respects from those generally accepted in the United States ("U.S. GAAP") and to the extent that they affect the Corporation, these differences are described in Note 15 "Differences from United States Accounting Principles."

The Corporation's accounting policies and its standards of financial disclosure conform with the recommendations of the Canadian Institute of Public Real Estate Companies ("CIPREC"). In the United States, the National Association of Real Estate Investment Trusts ("NAREIT") has adopted a measurement called Funds From Operations ("FFO") to supplement net income as a measure of operating performance. This measurement is considered to be a meaningful and useful measure of real estate operating performance. TrizecHahn's and CIPREC's presentation of cash flow from real estate operations is consistent with NAREIT's definition of FFO. FFO does not represent cash flow from operations as defined by Canadian GAAP. This measure is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Certain comparative figures have been reclassified to conform with the current year's presentation.

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and of all subsidiaries of the Corporation where more than 50% of the voting shares are owned, and the accounts of all incorporated and unincorporated joint ventures and partnerships to the extent of the Corporation's proportionate interest in their respective assets, liabilities, revenue, expenses and cash flow. All material intercompany transactions have been eliminated.

b. Reporting Currency and Foreign Currency Translation

The consolidated financial statements have been presented in United States dollars because it is the currency of the primary economic environment in which the Corporation conducts its operations. Assets and liabilities denominated in foreign currencies are translated into United States dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the weighted average rate for the period. The Corporation's operations in Canada and Europe are of a self-sustaining nature. Cumulative gains or losses arising from the translation of the assets and liabilities of these operations are recorded as a separate component of shareholders' equity.

In these financial statements, unless otherwise indicated, all dollar amounts are expressed in United States dollars; references to "U.S.$" and "$" are to United States dollars and references to "C$" are to Canadian dollars.

c. Properties

i. Rental properties

Rental properties held as ongoing investments are recorded at the lower of cost and net recoverable amount. Net recoverable amount is the undiscounted projected future net cash flow to be generated from the property throughout its useful life, including its residual value, and is intended to determine recoverability of an investment and is not an expression of a property's fair market value. Rental properties considered for disposition in the

1. Significant Accounting Policies (cont'd)

near term are recorded at the lower of cost and net realizable value. Net realizable value is determined on the basis of amounts that would be realized if the property were offered for sale in the ordinary course of business under normal market conditions.

Depreciation of rental properties is determined using the sinking fund method under which an increasing amount, consisting of a fixed annual sum together with interest compounded at the rate of 5% per annum, is charged to income so as to fully depreciate the buildings and improvements over their estimated useful lives of 30 to 50 years, subject to the terms of any respective ground leases.

Re-leasing costs and the cost of tenant improvements are deferred and amortized on a straight-line basis over the term of the respective lease. Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations are capitalized to rental properties. Furniture, equipment and certain improvements are depreciated on a straight-line basis over periods of up to 10 years.

ii. Properties under and held for development

Properties under development consist of rental properties under construction and are recorded at the lower of cost, including pre-development expenditures, and net recoverable amount. Properties developed for sale are recorded at the lower of cost and net realizable value.

d. Capitalized Costs

Consistent with U.S. GAAP, the cost of properties under development includes all expenditures incurred in connection with the activities of acquiring, developing and constructing these properties. These expenditures consist of all direct costs including initial leasing costs, interest on general and specific debt, and general and administrative expenses.

Revenues relating specifically to such properties are treated as a reduction of costs until such time as construction is substantially completed and the property is available for occupancy.

e. Income Recognition

i. Revenue from a rental property is recognized once the property is substantially completed and available for occupancy. Prior to this time, the property is categorized as a property under development. The Corporation has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes minimum rents, participating percentage rents and recoveries of operating expenses and property, capital and large corporation taxes.

ii. Income from the sale of properties is recorded when the collection of the proceeds of sale is reasonably assured and all other significant conditions and obligations are met.

f. Cash and Short-term Investments

Cash and short-term investments consist of liquid investments such as time deposits, money market instruments, commercial paper, and Canadian and foreign government securities carried at the lower of cost and quoted market value.

g. Investments in Affiliates

At December 31, 1997, TrizecHahn held a 15.7% interest in Barrick Gold Corporation ("Barrick"), an international gold mining company. Until November 3, 1997, the Corporation held a 46% interest in Clark USA, Inc. ("Clark"), an oil refining and marketing company in the United States.

The Corporation accounts for investments in affiliates over which it exercises significant influence by the equity method. This method adjusts the original cost of the shares for the Corporation's share of net income or losses and changes in shareholders' equity of the affiliates, less dividends received from the affiliates.

Investments in which the Corporation does not exercise significant influence are accounted for by the cost method. Income is recognized only to the extent of dividends received.

For 1996 and prior years, the Corporation used the equity method of accounting for its investment in Barrick. For 1997, the Corporation adopted the cost method of accounting. Dividends of $9.4 million received from Barrick during the current year have been netted against exchangeable debentures interest expense.

h. Exchangeable Debentures

The carrying amount of the Corporation's exchangeable debentures is based on the market price, on the balance sheet date, of the underlying Barrick shares that would be exchanged to extinguish the debenture liability.

Where it is contemplated that delivery of the underlying Barrick shares will be made in satisfaction of the liability, hedge accounting is used whereby the difference between the carrying amount and the original issue amount of the debentures is recorded as a deferred charge until such time as there is a realized gain or loss on exchange, redemption or maturity of the debentures. Prior to December 31, 1996, where hedge accounting was not used, the difference between the carrying amount and the original issue amount was charged to net income in the period.

i. Income Taxes

The Corporation follows the tax deferral method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and those currently payable or recoverable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the consolidated financial statements and the time they are reported for income tax purposes.

j. Financial Instruments

The Corporation uses interest rate cap and swap agreements to manage risks from fluctuations in interest rates. The Corporation accounts for cap contracts as hedges and, as a result, the carrying values of the financial instruments are not adjusted to reflect their current market values. Any amount received arising from interest rate cap contracts is recognized as a reduction of interest expense on an accrual basis. Premiums paid to arrange interest rate cap contracts are deferred and amortized over the term of the contracts. Under interest rate swap agreements, payments are recognized as adjustments to interest expense when incurred. The Corporation deals with high-quality financial institutions as counterparties.

The estimated fair value of long-term debt is based on the values derived using market interest rates of similar instruments. In determining estimates of the fair value of financial instruments, the Corporation must make assumptions regarding current market interest rates, considering the term of the instrument and its risk. Current market interest rates are generally selected from a range of potentially acceptable rates and, accordingly, other effective rates and/or fair values are possible.

k. Per Share Calculations

Basic income from continuing operations, net income and cash flow from real estate operations per share were calculated based on the weighted average number of shares outstanding for the year. The calculation of income from continuing operations, net income and cash flow from real estate operations per share on a fully diluted basis considered the potential exercise of outstanding share purchase options and warrants to the extent each option and warrant was dilutive. Pro forma per share amounts were calculated as if the shares and warrants issued upon the acquisition of the remaining interest in Trizec (32.9 million shares) were issued at the beginning of 1996 (see Note 14).

1. Significant Accounting Policies (cont'd)

The following table summarizes the number of shares used in the calculation of per share amounts:

For the years ended December 31 (in millions of shares)	**1997**	Pro Forma (Note 1) 1996	1996
INCOME FROM CONTINUING OPERATIONS			
Basic	**147.7**	136.8	109.5
Fully diluted	**153.3**	142.6	123.3
NET INCOME			
Basic	**147.7**	136.8	109.5
Fully diluted	**150.0**	140.5	114.9
CASH FLOW FROM REAL ESTATE OPERATIONS			
Basic	**147.7**	136.8	
Fully diluted	**165.2**	146.8	

Interest on the funds which would have been received had the share purchase options and warrants been exercised has been imputed at a rate of 5.0% per annum (1996 – 5.35%).

l. Merger of Horsham and Trizec and Pro Forma Presentation

TrizecHahn Corporation was formed, effective October 31, 1996, as the result of a merger (the "Merger") between Horsham Corporation ("Horsham") and Trizec Corporation Ltd. (subsequently renamed TrizecHahn Holdings Ltd., hereinafter referred to as "Trizec") a North American real estate company. Prior to this date, Horsham held a 48% equity interest in Trizec. On October 31, 1996, a resolution was passed at a Special Meeting of shareholders of Trizec approving a Merger Agreement (the "Merger Agreement") with Horsham where, among other things, each Trizec common share (other than those held by Horsham) was exchanged for 0.58 subordinate voting shares of Horsham. The Merger was accounted for by Horsham as an acquisition of the 52% remaining interest in Trizec (see Note 14), using the purchase method of accounting. Horsham's name was changed to TrizecHahn Corporation to reflect the fact that the Corporation is a fully integrated, growth-oriented real estate development and operating company.

The pro forma comparative financial statements and notes are provided, in addition to the historical financial statements, because prior to November 1, 1996, the Corporation's 48% investment in Trizec was accounted for using the equity method. As such, the statutory consolidated income statement and statement of cash flows only reflect the line-by-line detail of Trizec for the two months ended December 31, 1996, i.e. the period of consolidation.

The pro forma comparative consolidated statements of income, cash flow from real estate operations and cash flows are presented as if the Merger had occurred at the beginning of the fiscal period presented. The pro forma comparative income statement includes the 52% previously not owned ownership interest in Trizec's results (1996 net income up to October 31, 1996 – $18.9 million), plus the initial 48% ownership interest, on a consolidated line-by-line basis. This allows for year-over-year comparability of TrizecHahn's real estate operations. No other adjustments were made to the underlying comparative financial statements and results. The pro forma comparative consolidated financial statements and notes presented are based upon financial statements of Trizec and Horsham to the date of the Merger and the audited consolidated financial statements of TrizecHahn for the year ended December 31, 1996.

2. Subsequent Events

a. Sale of Unencumbered Barrick shares

At December 31, 1997 and 1996, the investment in Barrick consisted of 58,465,584 common shares. Of this amount, 28,166,026 shares were unencumbered, while 30,299,558 are pledged as collateral for the full satisfaction of the exchange obligation relating to exchangeable debentures (see Note 7).

On February 3, 1998, the Corporation sold its unencumbered shares of Barrick for gross proceeds of approximately $513 million. The majority of the shares (24,896,026) were sold to the public by way of an underwritten secondary offering on an installment basis, with the balance (3,270,000) sold on a fully paid basis. For the installment sales, approximately 60% of the selling price ($272 million) was received on closing, with the balance receivable on February 3, 1999 ($182 million). This sale will generate an estimated after-tax gain of approximately $100 million.

b. Sale of Western Canadian Place

On February 9, 1998, as part of an overall settlement of all of its outstanding litigation with Husky Oil Operations Ltd. (together with its affiliates, "Husky"), the Corporation sold its 50% interest in the Calgary office property, Western Canadian Place, to Husky for proceeds of approximately $89 million. The agreement provides for full settlement of previously disputed unpaid rent and outstanding mortgage bonds at no net cost to the Corporation. There is no gain or loss to the Corporation on the sale of the property.

3. Properties

	1997	1996
Rental properties:		
At cost	**$ 4,552.9**	3,508.2
Accumulated depreciation	**(118.1)**	(72.5)
	4,434.8	3,435.7
Properties under and held for development	**322.4**	138.8
	$ 4,757.2	3,574.5

a. In addition to development and construction costs, other direct costs including interest expense of $12.6 million (pro forma 1996 – $7.8 million) and general and administrative expense of $0.4 million (pro forma 1996 – $0.2 million) have been capitalized to rental properties under development during the year.

The Corporation's committed share of expenditures required to complete rental properties under development is estimated at $58.5 million, for which financing has been arranged.

3. Properties (cont'd)

b. Future minimum rentals to be received under non-cancellable tenant leases in effect at December 31, 1997 are as follows:

Years ending December 31, 1998	$ 449.0
1999	429.6
2000	390.6
2001	351.7
2002	305.1
Thereafter	1,415.9
	$ 3,341.9

c. Properties carried at a net book value of approximately $1,474.3 million are situated on land held under leases or agreements expiring in the years 2023 to 2089.

Minimum land rental payments for each of the next five years and subsequently are as follows:

Years ending December 31, 1998	$ 11.9
1999	12.0
2000	12.4
2001	12.5
2002	12.6
2003 to 2089	571.9
	$ 633.3

Additional rent is payable under certain leases based on rental revenue or net cash flow from properties situated on leased land.

4. Other Assets

	1997	1996
Amounts receivable	$ **89.8**	72.4
Investment in Sears Tower	**70.0**	–
Mortgages and notes receivable	**16.9**	21.0
Prepaid expenses	**30.2**	16.6
Deferred financing costs	**44.1**	40.6
Deposits, deferred charges and other	**121.4**	87.8
	$ **372.4**	238.4

a. Investment in Sears Tower

On December 3, 1997, the Corporation purchased a subordinated mortgage and an option to purchase the Sears Tower in Chicago (the "Investment in Sears Tower") for $70 million, which gave TrizecHahn effective control over all aspects of the building including property management and leasing. The Corporation's mortgage is subordinate to an existing first mortgage plus accrued interest (December 31, 1997 – approximately $735 million) which is serviced only to the extent of available cash flow. The subordinated mortgage, which matures in July 2010, has a principal plus accrued interest balance of approximately $294 million at December 31, 1997, and has participation rights on available cash flow. As excess cash flow is not currently available to service the subordinated mortgage, no interest income has been recognized for the period ended December 31, 1997. The option to purchase the building is exercisable between January 2003 and July 2005 at a price of approximately $950 million plus 40% of the amount by which the appraised value of the building exceeds $1,063 million.

b. Net Change in Operating Working Capital

The net change in operating working capital includes the net changes in tenant receivables, prepaid expenses, deferred charges and other assets, and accounts payable and accrued liabilities that relate to operating activities.

For the years ended December 31		**1997**	Pro Forma (Note 1) 1996	1996
Change in tenant receivables	**$**	**(24.9)**	(21.4)	(3.2)
Change in prepaid expenses		**1.1**	(3.8)	(4.9)
Change in deferred charges and other assets		**3.7**	4.2	(1.7)
Change in accounts payable and accrued liabilities		**14.2**	3.3	20.0
Net change in operating working capital	**$**	**(5.9)**	(17.7)	10.2

5. Investment in Clark

On November 3, 1997, the Corporation, in accordance with its plan formalized during 1996, completed the sale of its investment in Clark. The disposal of this investment resulted in a pre-tax gain of $5 million and has been classified as "Discontinued operations of Clark." Income taxes of $23.1 million, before the utilization of tax-loss carry-forwards from continuing operations, have been recorded in connection with this sale.

The loss in the discontinued operations of Clark for 1996 of $7.6 million was comprised of equity accounting losses of $26 million, net of dilution gains of $18.4 million.

6. Long-term Debt

	Weighted average interest rates as at December 31, 1997	1997	Weighted average interest rates as at December 31, 1996	1996
Collateralized property loans:				
At fixed rates	**8.17%**	**$ 1,690.8**	8.86%	1,375.2
At variable rates (subject to interest rate caps)	**7.67%**	**158.5**	6.34%	211.8
At variable rates	**7.36%**	**554.7**	7.23%	472.6
Other loans:				
At fixed rates	**8.16%**	**349.5**	10.09%	358.9
At variable rates (subject to interest rate caps)	**6.40%**	**230.7**	–	–
At variable rates	**7.04%**	**45.2**	–	–
	7.85%	**$ 3,029.4**	8.50%	2,418.5

a. Collateralized Property Loans

As at December 31, 1997, the Corporation had fixed the interest rates on $118.6 million (1996 – $103 million) of the debt classified as fixed, by way of interest rate swap contracts with a weighted average interest rate of 8.76%, and maturing between October 1998 and August 2001. The cost to unwind these interest rate swap contracts would amount to approximately $5.7 million as at December 31, 1997 (1996 – $4.4 million).

The Corporation has entered into interest rate cap contracts on variable rate debt which limit the underlying Canadian Bankers' Acceptance rate ("BA") and London Interbank Offered Rate ("LIBOR") to set levels. Contracts in place at December 31, 1997 are as follows:

- contracts expiring between November 1999 and June 2001 which limit the underlying LIBOR rate on $108.5 million of U.S. dollar denominated variable rate debt to between 6.45% and 8%, or 7% on a weighted average basis; and
- a contract expiring in February 2000 which limits the underlying LIBOR rate on $50 million of U.S. dollar denominated variable rate debt to 7%. However, this contract contains a knockout clause which leaves the Corporation without interest rate protection when LIBOR rates exceed the knockout rate of 9%.

At December 31, 1997, the three month BA rate was 4.81% and the three month LIBOR rate was 5.81%.

b. Other Loans

Included in "Other loans" are the following:

- $167.5 million of 10.875% Senior Notes due October 15, 2005 (1996 – $250 million). The Senior Notes, which are unconditionally guaranteed by Trizec, a wholly owned subsidiary of the Corporation, are redeemable at the option of the Corporation under certain circumstances;
- $87.4 million (C$125 million) of 7.45% unsecured debentures due June 1, 2004;
- $122.5 million (C$175 million) of 7.95% unsecured debentures due June 1, 2007; and
- $174.9 million (C$250 million) of 6.00% unsecured debentures due September 3, 2002.

The Corporation has entered into interest rate swap contracts on $209.9 million (C$300 million) of debt included in "Other loans," effectively converting the debt from fixed rate into variable rate debt maturing in June 2004 and June 2007. In addition, the Corporation entered into interest rate cap contracts on this debt which limit the underlying BA rate to 6.0%. However, these contracts contain knockout clauses which leave the Corporation without interest rate protection when underlying BA rates exceed the knockout rate of 9.0%. As at December 31, 1997, the fair value of these contracts to the Corporation was estimated to be $3.9 million.

In addition, the Corporation has entered into an interest rate cap contract expiring October 2004 which limits the underlying LIBOR rate on $22.5 million of U.S. dollar denominated variable rate debt to 9.5%.

c. Principal Repayments

Principal repayments of debt are due as follows:

	U.S. dollar denominated debt	Canadian dollar denominated debt	Total debt
Years ending December 31, 1998	$ 375.4	32.7	408.1
1999	236.5	5.2	241.7
2000	251.3	7.0	258.3
2001	247.2	33.5	280.7
2002	55.8	300.6	356.4
Subsequent to 2002	1,251.3	232.9	1,484.2
	$ 2,417.5	611.9	3,029.4

The various debt arrangements of the Corporation contain certain covenants including limitations on additional indebtedness, payment of dividends or distributions in respect of capital stock subject to the maintenance of certain financial ratios.

The estimated fair value of the Corporation's long-term debt approximates its carrying value as at December 31, 1997.

d. Interest Charges

Interest charges consist of the following:

For the years ended December 31	**1997**	Pro Forma (Note 1) 1996	1996
Interest cost, gross	**$ (217.9)**	(224.3)	(40.3)
Interest capitalized to properties under development	**12.6**	7.8	0.2
Interest expense	**(205.3)**	(216.5)	(40.1)
Interest income	**19.2**	36.0	27.6
Interest expense, net	**$ (186.1)**	(180.5)	(12.5)

e. Lines of Credit

At December 31, 1997, committed property collateralized credit facilities in the amount of $197.2 million were available. The Corporation also has a $250 million revolving credit facility from an institutional lender to facilitate property acquisitions. At December 31, 1997, $73.5 million (1996 – $25 million) was drawn on this facility.

The Corporation has signed a letter agreement for a $182 million revolving credit facility to be secured by the installment receivable arising on the sale of the unencumbered Barrick shares (see Note 2a).

7. Exchangeable Debentures

	1997	1996
Carrying amount:		
$600 million, 3¼% Debentures, due 2018	$ 399.2	600.0
$275 million, 3% Debentures, due 2021	165.3	255.0
	564.5	855.0
Deferred amount	310.5	20.0
	$ 875.0	875.0

a. 3¼% Exchangeable Debentures

In December 1993, the Corporation issued $600 million of 3¼% Debentures due December 10, 2018. Interest is payable semi-annually. Each $1,000 principal amount of 3¼% Debentures is exchangeable at the option of the holder for 32.4675 common shares of Barrick, without payment of accrued interest. The 3¼% Debentures are redeemable at the option of the Corporation on or after December 10, 1998 at a price equal to the principal amount plus accrued interest. Upon notice of redemption by the Corporation or within 30 days prior to maturity, the holder has the option to exchange each $1,000 principal amount for between 32.4675 and 35.7143 Barrick common shares (depending upon the current market value of Barrick shares at such time), plus accrued interest payable in cash. The 3¼% Debentures are direct unsubordinated obligations of the Corporation. As of December 31, 1997, the Corporation has placed, with a trustee, 21,428,580 Barrick shares as collateral for its exchange obligation. This represents the maximum number of Barrick shares that are required to be pledged as collateral.

The Corporation's obligation related to any exchange or redemption can be satisfied through delivery of the cash equivalent of the current market value of Barrick shares at such time, the Barrick shares, or any combination thereof. The 3¼% Debentures are direct unsubordinated obligations of the Corporation. Satisfaction of the liability with cash would retain the potential benefit of future equity appreciation related to the Barrick shares for the period subsequent to the retirement.

In prior years, the Corporation carried the $600 million of 3¼% Debentures at their face amount. To create consistency on a prospective basis with the accounting treatment mandated for the $275 million of 3% Debentures issued in 1996, the $600 million 3¼% Debentures were retroactively marked to market. This change in accounting policy resulted in the recording of a revaluation charge of $35 million for the year ended December 31, 1996. A deferred tax recovery of $15 million was recorded related to the revaluation charge, resulting in a net charge to net income for the year ended December 31, 1996, of $20 million.

The carrying amount of the Corporation's 3¼% Debentures is based on the market price, on the balance sheet date, of the underlying Barrick shares that would be exchanged to extinguish the debenture liability.

Effective January 1, 1997, as it is contemplated that delivery of the underlying Barrick shares will be made in satisfaction of the liability, hedge accounting has been applied, whereby the difference between the carrying amount and the original issue amount of the 3¼% Debentures is recorded as a deferred charge until such time as there is a realized gain or loss on their exchange, redemption or maturity.

b. 3% Exchangeable Debentures

In January 1996, the Corporation issued $275 million of 3% Debentures due January 29, 2021. The net proceeds from the issue amounted to $264.0 million. Interest is payable semi-annually. Each $1,000 principal amount of 3% Debentures is exchangeable at the option of the holder for 32.2581 common shares of Barrick, without payment of accrued interest. The 3% Debentures are redeemable at the option of the Corporation on or after January 29, 2006, at a price equal to the principal amount plus accrued interest. Upon notice of redemption by the Corporation or within 30 days prior to maturity, the holder has the option to exchange each $1,000 principal amount for 32.2581 Barrick common shares, plus accrued interest payable in cash. The 3% Debentures are direct unsubordinated obligations of the Corporation. As of December 31, 1997, the Corporation has placed with a trustee a further 8,870,978 Barrick shares (see Note 7a above) as collateral for its exchange obligation. This represents the maximum number of Barrick shares that are required to be pledged as collateral under this issue.

The Corporation's obligation related to any exchange or redemption can be satisfied through delivery of the cash equivalent of the current market value of Barrick shares at such time, the Barrick shares, or any combination thereof. The 3% Debentures are direct unsubordinated obligations of the Corporation. Satisfaction of the liability with cash would retain the potential benefit of future equity appreciation related to the Barrick shares for the period subsequent to the retirement.

The carrying amount of the Corporation's 3% Debentures is based on the market price, on the balance sheet date, of the underlying Barrick shares that would be exchanged to extinguish the debenture liability. As it is contemplated that delivery of the underlying Barrick shares will be made in satisfaction of the liability, hedge accounting has been applied, whereby the difference between the carrying amount and the original issue amount of the 3% Debentures is recorded as a deferred charge until such time as there is a realized gain or loss on their exchange, redemption or maturity.

8. Income and Other Corporate Taxes

a. The provision for income and other corporate taxes from continuing operations is as follows:

For the years ended December 31		**1997**	Pro Forma (Note 1) 1996	1996
Income tax:				
Current	**$**	**(0.2)**	(0.4)	(0.4)
Deferred – operations		**(38.3)**	(17.2)	2.8
– debenture revaluation (Note 7)		**–**	15.0	15.0
– valuation adjustment (Note 10 and 14)		**–**	50.4	50.4
Other corporate tax – current		**(4.2)**	(3.3)	(0.3)
		(42.7)	44.5	67.5
Utilization of tax-loss carry-forwards on the sale of Clark		**23.1**	–	–
Total tax (expense) recovery	**$**	**(19.6)**	44.5	67.5

8. Income and Other Corporate Taxes (cont'd)

b. The provision for income taxes on income from continuing operations differs from the provision computed at statutory rates as follows:

For the years ended December 31	**1997**	Pro Forma (Note 1) 1996	1996
Income tax recovery (expense) computed at Canadian combined federal and provincial statutory rates	**$ (37.9)**	5.4	24.0
Foreign operations taxed at lower rate	**6.4**	(3.4)	(6.6)
Losses not tax effected	**(9.3)**	–	–
Utilization of tax-loss carry-forwards	**–**	19.4	18.2
Tax on large corporations	**(2.1)**	(2.3)	(0.2)
State and other capital taxes	**(2.1)**	(1.0)	(0.1)
Share of income of affiliates and dilution gains	**–**	31.1	38.8
Other	**2.3**	(4.7)	(6.6)
	(42.7)	44.5	67.5
Utilization of tax-loss carry-forwards on sale of Clark	**23.1**	–	–
Total tax (expense) recovery	**$ (19.6)**	44.5	67.5

c. At December 31, 1997, the Corporation had loss carry-forwards for Canadian income tax purposes available to reduce future Canadian income for tax purposes, the potential benefit of which has not been recognized in the accounts and which expire as follows:

Years ending December 31, 1998	$ 12.7
1999	31.9
2000	7.0
2001	8.1
2002	69.8
2003	6.3
2004	13.7
	$ 149.5

There are capital losses available for Canadian income tax purposes amounting to $20.6 million that can be carried forward indefinitely to apply against future capital gains. In addition, there are tax deductions available in the amount of $123.6 million to be utilized in future years. These amounts have not been recognized in the accounts.

In the United States, the Corporation has approximately $330.3 million in net operating losses for which the potential benefits have been recorded in the balance sheet as a reduction of deferred income tax liabilities. These losses are available to be utilized against cash taxes otherwise payable in future years.

9. Shareholders' Equity

	1997	1996
Share capital	**$ 1,164.1**	870.3
Foreign currency translation adjustment	**(55.4)**	(34.8)
Retained earnings	**544.5**	533.1
	$ 1,653.2	1,368.6

a. Share Capital

At December 31, 1997, the authorized share capital of the Corporation consisted of the following:

- an unlimited number of preferred shares, issuable in one or more series;
- an unlimited number of subordinate voting shares without par value, carrying one vote per share; and
- 7,522,283 multiple voting shares without par value, carrying 50 votes per share. Pursuant to a trust agreement, the holder of all of the multiple voting shares has agreed not to vote more than that number of multiple voting shares carrying votes in the aggregate that represent a simple majority of all votes entitled to be cast on a matter by all holders of voting securities of TrizecHahn in the aggregate.

Warrants outstanding at December 31, 1997 of 13,984,259 are exercisable at a price of C$14.14 to acquire 0.58 subordinate voting shares of the Corporation, on or before July 26, 1999.

b. Issued and Outstanding Share Capital

The number of shares and warrants issued and outstanding (in millions) was as follows:

	Voting shares				
	Subordinate	Multiple	Total	Warrants	Amount
DECEMBER 31, 1995	95.5	7.5	103.0	–	$ 345.2
Issued during 1996					
– on exercise of stock options	1.4	–	1.4	–	12.9
– in exchange for Trizec shares (Note 14)	32.9	–	32.9	14.0	512.2
DECEMBER 31, 1996	129.8	7.5	137.3	14.0	870.3
Issued during 1997					
– on exercise of stock options	1.4	–	1.4	–	15.4
– issue of shares for cash	8.6	–	8.6	–	163.7
– in exchange for Advanta properties	5.5	–	5.5	–	114.7
DECEMBER 31, 1997	145.3	7.5	152.8	14.0	$ 1,164.1

9. Shareholders' Equity (cont'd)

On April 21, 1997, the Corporation acquired a number of real estate development projects in the United Kingdom and Germany from Advanta Management AG, a third party. The Corporation paid for these projects through the issuance of approximately 5.5 million subordinate voting shares of the Corporation and the assumption of certain development liabilities and construction financing. The acquisition was recorded at $153.0 million with a value ascribed to these shares of $114.7 million.

On April 30, 1997, the Corporation issued 8.6 million subordinate voting shares at a price of U.S.$20 per share representing gross proceeds to the Corporation of $172.5 million and net proceeds of $163.7 million.

c. Share Purchase Options

The Corporation has a stock option plan in which options may be granted to directors, officers and key employees to purchase shares of the Corporation at prices in Canadian dollars which are not below the market price of the shares at the time of the granting of the options. There are stock options outstanding expiring at various dates to April 2005, with a weighted average number of years remaining at December 31, 1997 of 5.9 years. Included in the options outstanding, at December 31, 1997, are 1,217,000 share purchase options which have been granted subject to receiving all requisite approvals and shareholders' confirmation of the amendment to the share option plan. Changes in the granted and outstanding share options were as follows:

(millions of options)	1997	1996
OUTSTANDING AT BEGINNING OF YEAR – WEIGHTED AVERAGE PRICE OF C$20.66 (1996 – C$15.56)	**9.6**	5.8
Granted at a weighted average price of C$33.19 per share (1996 – C$28.85)	**4.7**	3.1
Assumed as a result of Merger (see below)	**–**	2.2
Cancelled	**(0.1)**	(0.1)
Exercised at a weighted average price of C$15.30 per share (1996 – C$12.47)	**(1.4)**	(1.4)
OUTSTANDING AT END OF YEAR – WEIGHTED AVERAGE PRICE OF C$25.92 (1996 – C$20.66)	**12.8**	9.6
OUTSTANDING AT END OF YEAR		
Price range C$9.15 – C$11.13; weighted average (1996 – C$9.66)	**–**	0.4
Price range C$15.00 – C$22.00; weighted average C$17.12 (1996 – C$17.26)	**5.0**	6.1
Price range C$28.85 – C$35.80; weighted average C$31.48 (1996 – C$28.85)	**7.8**	3.1
	12.8	9.6
EXERCISABLE AT END OF YEAR		
Price range C$9.15 – C$11.13; weighted average (1996 – C$9.66)	**–**	0.4
Price range C$15.00 – C$22.00; weighted average C$16.90 (1996 – C$16.77)	**4.0**	3.8
Price range C$28.85 – C$35.80; weighted average C$28.85	**0.7**	–
	4.7	4.2

In 1996, as the result of the Merger, the Corporation assumed Trizec share purchase options which previously entitled the holders to purchase up to 3,767,500 Trizec common shares at exercise prices of C$10.00 per share. Each Trizec option is exercisable for 0.58 of a subordinate voting share of the Corporation (in total 2,185,150), at an effective exercise price of C$17.24.

d. Dividends and Dividend Restrictions

In 1997, the Corporation declared and paid dividends in United States dollars of $0.25 per share (1996 – $0.07 per share). The various debt arrangements of Trizec contain certain covenants, including limitations on payment of dividends.

e. Foreign Currency Translation Adjustment

		1997	1996
Beginning of year	$	**(34.8)**	(27.5)
Changes in exchange rate on opening net investment		**(20.8)**	(6.7)
Exchange rate changes on current period transactions		**0.2**	(1.9)
Recognition into income		**–**	1.3
End of year	$	**(55.4)**	(34.8)

The balance in the foreign currency translation adjustment account includes historic amounts related to the Corporation's translation of its Barrick investment during prior periods which, at December 31, 1997, amounted to $17.7 million. A portion of this amount is recognized as an expense when there is a reduction in the Corporation's net investment in Barrick.

10. Loss on Early Debt Retirement and Other, Net

For the years ended December 31		1997	1996
Loss on early debt retirement	$	**25.1**	–
Dilution gain – Barrick		**–**	38.9
Valuation adjustment (Note 14)		**–**	(106.2)
Other		**–**	(2.5)
	$	**(25.1)**	(69.8)

On June 30, 1997, the Corporation redeemed, pursuant to their terms, $82.5 million of the principal amount of the 10.875% Senior Notes due October 2005. On August 5, 1997 the Corporation retired the indebtedness related to the Place Ville Marie office complex in Montreal, Quebec. As a consequence of these early retirements, the Corporation paid redemption premiums resulting in the recording of a charge to income of $25.1 million.

The 1996 dilution gain resulted from the issuance of common shares by Barrick for amounts in excess of the Corporation's carrying value.

In 1996, as a consequence of having acquired the remaining 52% interest in Trizec, a reduction in property values of $106.2 million was recorded related to 48% of the Corporation's initial investment in properties which were being considered for disposition in the near term. A deferred tax recovery of $50.4 million was recorded related to this valuation adjustment (see Note 8), resulting in a net charge to income of $55.8 million.

11. Segmented Information

The Corporation is a fully integrated real estate development and operating company, primarily focused in the United States and Canada, and its activities include the acquisition, development and operation of rental properties consisting of office properties and retail centers.

The following summary presents key information by segment for the year ended December 31, 1997, and on a pro forma basis for 1996 (see Notes 1 and 14).

	United States		Canada		Total	
For the years ended December 31	**1997**	Pro Forma (Note 1) 1996	**1997**	Pro Forma (Note 1) 1996	**1997**	Pro Forma (Note 1) 1996
OFFICE						
Rental operations						
Revenue	**$ 285.0**	171.4	**197.6**	182.7	**482.6**	354.1
Operating costs	**(135.9)**	(84.0)	**(93.1)**	(81.5)	**(229.0)**	(165.5)
Rental income	**$ 149.1**	87.4	**104.5**	101.2	**253.6**	188.6
Depreciation expense	**$ (17.5)**	(8.1)	**(14.5)**	(13.4)	**(32.0)**	(21.5)
RETAIL						
Rental operations						
Revenue	**$ 231.1**	243.0	**–**	–	**231.1**	243.0
Operating costs	**(88.6)**	(93.0)	**–**	–	**(88.6)**	(93.0)
Rental income	**$ 142.5**	150.0	**–**	–	**142.5**	150.0
Depreciation expense	**$ (18.1)**	(18.4)	**–**	–	**(18.1)**	(18.4)

	United States		Canada		Total	
As at December 31	**1997**	1996	**1997**	1996	**1997**	1996
RENTAL PROPERTIES, NET BOOK VALUE						
Office	**$ 1,956.1**	1,012.8	**879.1**	861.0	**2,835.2**	1,873.8
Retail	**1,599.6**	1,561.9	**–**	–	**1,599.6**	1,561.9
	$ 3,555.7	2,574.7	**879.1**	861.0	**4,434.8**	3,435.7

On April 21, 1997, the Corporation acquired a number of real estate development projects in the United Kingdom and Germany from Advanta Management AG (see Note 9). At December 31, 1997, the net book value of European development projects, which includes Number One Poultry in London, England, and sites in Germany and Hungary, amounted to $222.2 million.

In the office portfolio, operations are concentrated in the downtown central business districts of Houston, New York, Calgary and Montreal. In the retail centers portfolio, operations are concentrated in the State of California.

12. Joint Ventures

In its real estate operations, the Corporation participates in incorporated and unincorporated joint ventures and partnerships with other venturers in various operating properties which are accounted for using the proportionate consolidation method. In most instances, these projects are managed by the Corporation. The consolidated financial statements include the Corporation's proportionate share of assets, liabilities, revenue, expenses and cash flow.

a. The following amounts represent the total assets and liabilities of joint ventures in which the Corporation participates and its proportionate share of the assets and liabilities.

	Total		Proportionate share	
As at December 31	**1997**	1996	**1997**	1996
Assets	**$ 3,616.7**	2,747.0	**1,850.1**	1,391.0
Liabilities	**1,726.4**	1,184.0	**903.1**	613.6

b. The following summary presents the Corporation's proportionate share of revenue, expenses and cash flows of joint ventures in which the Corporation participates.

For the years ended December 31	**1997**	Pro Forma (Note 1) 1996	1996
Revenue	**$ 221.9**	187.3	31.2
Expenses	**(161.8)**	(144.0)	(24.0)
Cash flow from (applied to):			
Operating activities	**71.4**	59.0	9.8
Financing activities	**269.2**	(37.4)	(18.9)
Investing activities	**(435.1)**	29.8	35.5

c. The Corporation is contingently liable for obligations of its partners in such joint ventures. In each case, all of the assets of the joint venture are available for the purpose of satisfying such obligations. At December 31, 1997, the Corporation had guaranteed or was otherwise liable for approximately $49 million (1996 – $62 million) of its partners' share of recourse property debt.

13. Contingencies

In a Complaint filed May 5, 1997, AOC Limited Partnership ("AOC") and others commenced an action in the Circuit Court of Cook County, Illinois, against the Corporation and Clark. AOC, the Corporation and Clark are all parties to a stock purchase and redemption agreement dated as of December 31, 1992 (the "Purchase Agreement"), pursuant to which AOC sold its 40% minority interest in Clark. The Purchase Agreement provided that, in certain circumstances, AOC could receive contingent payments of up to $24 million, plus interest at a rate of 9%. Such contingent payments were to be paid as to 89% by Clark and as to 11% by the Corporation. The Corporation indemnified Clark for any contingent payment made by it in excess of $7 million. In the Complaint, the plaintiffs allege that they are entitled to receive a payment under the Purchase Agreement of in excess of $21 million plus interest as a result of an issuance of shares by Clark in February 1995. While the ultimate outcome of this action is not determinable at this early stage, the Corporation believes that the plaintiffs are not entitled to any payment. The Corporation has been advised by its counsel that it has a good defense to this action.

13. Contingencies (cont'd)

The Corporation is contingently liable under guarantees that are issued in the normal course of business and with respect to other litigation and claims that arise from time to time. While the final outcome with respect to claims and litigation pending at December 31, 1997 cannot be predicted with certainty, in the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the Corporation.

14. Acquisition of Trizec

a. Initial Investment

On July 25, 1994, Horsham purchased 46,508,690 common shares, 5,416,775 rights to purchase common shares and 6,066,684 Class B warrants to purchase common shares of Trizec, for 19,399 shares of Horsham and cash of approximately $428.6 million, for a total acquisition cost of $435.5 million. On October 24, 1994, Horsham paid an additional $48.1 million in connection with the exercise of the acquired rights. Prior to the acquisition of the remaining outstanding shares of Trizec that took place on October 31, 1996, Horsham held 51,925,465 or approximately 48% of the total common shares outstanding, and for financial statement purposes accounted for its investment in Trizec using the equity method of accounting. The following summarizes the carrying value of the Corporation's initial investment in Trizec:

ACQUISITION ON JULY 25, 1994	$ 435.5
Exercise of rights	48.1
Net income	8.2
Foreign currency translation	(4.2)
DECEMBER 31, 1994	487.6
Net income	19.0
Foreign currency translation	3.6
DECEMBER 31, 1995	510.2
Net income	17.4
Foreign currency translation	(1.1)
OCTOBER 31, 1996	$ 526.5

b. Acquisition of Remaining Interest

Pursuant to a Merger Agreement effective October 31, 1996 ("date of acquisition"), Horsham acquired all of the remaining outstanding common and special shares of Trizec by agreeing to exchange each Trizec common share (other than those already held by Horsham) for 0.58 subordinate voting shares of Horsham. The number of shares of TrizecHahn issued under this agreement was 32,862,689 subordinate voting shares with a fair value of $491.6 million. In addition to the exchange of shares, certain Class A Warrants (the "Warrants") to purchase common shares of Trizec were assumed by the Corporation as part of the Merger Agreement. These Warrants are exercisable at a price of C$14.14 per Warrant and allow for the purchase of 0.58 subordinate shares of TrizecHahn, for each Warrant, on or before July 26, 1999. The number of Warrants assumed by the Corporation amounted to 13,999,860 with a fair value of $20.6 million. The value of these securities was determined based upon the market values of Horsham subordinate voting shares and Trizec Warrants during a reasonable period surrounding the date of acquisition.

The acquisition of the remaining outstanding shares of Trizec has been accounted for using the purchase method of accounting. The fair value of the assets and liabilities acquired on October 31, 1996, based on the consideration paid for the remaining 52% interest, was as follows:

	Trizec net assets at book value	Remaining 52% interest acquired at fair value
ASSETS AND LIABILITIES		
Properties	$ 3,530.3	1,798.0
Cash	97.6	50.8
Other assets	200.8	95.0
Long-term debt	(2,500.6)	(1,309.3)
Other liabilities	(177.7)	(92.3)
Deferred income taxes	(44.2)	(23.0)
NET ASSETS	1,106.2	519.2
Initial investment	(526.5)	
Acquisition cost of remaining interest	(519.2)	
EXCESS OF BOOK VALUE OVER CONSIDERATION PAID	$ 60.5	
CONSIDERATION PAID		
Subordinate voting shares issued	$ (491.6)	
Warrants assumed	(20.6)	
Costs of the acquisition	(7.0)	
TOTAL CONSIDERATION	(519.2)	
Cash acquired	97.6	
Shares issued and warrants assumed	512.2	
CASH PROVIDED BY THE ACQUISITION	$ 90.6	

The acquisition of the remaining 52% interest in Trizec for consideration less than book value has resulted in a $60.5 million net reduction to the carrying values of the assets and liabilities acquired. Subsequent to the acquisition, a corresponding charge to net income of $55.8 million (net of a $50.4 million deferred tax recovery) was recorded. This represents a reduction of the 48% interest in property carrying values established at the time of the Corporation's initial investment in these properties (see Note 10).

15. Differences from United States Accounting Principles

Canadian GAAP varies in certain significant respects from the principles and practices generally accepted in the United States as described below. The approximate effects of these principal differences on the Corporation's balance sheets, statements of income and statements of cash flows are quantified below and described in the accompanying notes:

For the years ended December 31		1997	Pro Forma (Note 1) 1996	1996
INCOME FROM CONTINUING OPERATIONS AS REPORTED	$	**65.9**	32.3	13.4
Building depreciation		**(47.7)**	(36.8)	(20.8)
Deferred income taxes		**60.0**	(8.7)	(22.3)
Loss on early debt retirement		**25.1**	–	–
Other		**4.5**	3.7	2.1
INCOME (LOSS) FROM CONTINUING OPERATIONS UNDER U.S. GAAP		**107.8**	(9.5)	(27.6)
LOSS FROM DISCONTINUED OPERATIONS AS REPORTED		**(18.1)**	(7.6)	(7.6)
Deferred income taxes		**23.1**	8.7	8.7
INCOME FROM DISCONTINUED OPERATIONS UNDER U.S. GAAP		**5.0**	1.1	1.1
NET INCOME (LOSS) UNDER U.S. GAAP BEFORE EXTRAORDINARY ITEM AND EFFECT OF CHANGE IN ACCOUNTING POLICY		**112.8**	(8.4)	(26.5)
Loss on early debt retirement		**(25.1)**	–	–
NET INCOME (LOSS) UNDER U.S. GAAP BEFORE EFFECT OF CHANGE IN ACCOUNTING POLICY		**87.7**	(8.4)	(26.5)
Effect of change in accounting policy (Note 7)		**–**	20.0	20.0
NET INCOME (LOSS) UNDER U.S. GAAP	$	**87.7**	11.6	(6.5)
Income (loss) per share from continuing operations – Basic	$	**0.73**	(0.07)	(0.25)
– Fully diluted	$	**0.71**	(0.07)	(0.24)
Net income (loss) per share before extraordinary item – Basic	$	**0.76**	0.08	(0.06)
– Fully diluted	$	**0.74**	0.08	(0.06)
Net income (loss) per share – Basic	$	**0.59**	0.08	(0.06)
– Fully diluted	$	**0.57**	0.08	(0.06)
Weighted average number of shares outstanding during the year *(in millions)* – Basic		**147.7**	136.8	109.5
– Fully diluted		**152.6**	140.6	113.3

The principal differences itemized above are all non-cash in nature and do not impact the presentation of cash flow from real estate operations.

The incorporation of the differences in accounting principles into the consolidated balance sheets, as at December 31, 1997 and December 31, 1996, results in the following balance sheets presented under U.S. GAAP.

	1997	1996
Properties	**$ 4,696.4**	3,562.9
Cash and cash equivalents	**193.4**	344.5
Other assets	**372.4**	309.3
Investment in Barrick	**1,089.2**	1,681.0
Investment in Clark	**–**	108.1
	$ 6,351.4	6,005.8
Long-term debt	**$ 3,029.4**	2,418.5
Exchangeable debentures	**875.0**	875.0
Accounts payable and accrued liabilities	**279.3**	215.3
Deferred income taxes	**332.2**	594.0
Shareholders' equity	**1,835.5**	1,903.0
	$ 6,351.4	6,005.8

The following is a reconciliation of "Shareholders' equity" incorporating the differences between Canadian and U.S. GAAP:

	1997	1996
Shareholders' equity under Canadian GAAP	**$ 1,653.2**	1,368.6
Cumulative adjustments to net income	**(142.2)**	(182.1)
"Available for sale" valuation adjustment – Barrick	**324.5**	716.5
Shareholders' equity under U.S. GAAP	**$ 1,835.5**	1,903.0

15. Differences from United States Accounting Principles (cont'd)

U.S. GAAP defines cash and cash equivalents to include cash and short-term, highly liquid investments with original maturities of three months or less, whereas under Canadian GAAP, the Corporation defines cash to include cash and short-term investments. As at December 31, 1997, there was no difference in the amount presented as cash and cash equivalents under U.S. GAAP (1996 – $59.7 million). The adjustment to financing and investing activities in the current period relates to the issuance of shares and the assumption of debt for the acquisition of property (see Note 9). U.S. GAAP requires that non-cash transactions be excluded from investing and financing activities. As a result, certain items in the consolidated statements of cash flows under U.S. GAAP would be as follows:

For the years ended December 31	**1997**	Pro Forma (Note 1) 1996	1996
Cash flows from (applied to)			
Operating activities	**$ 125.3**	87.9	27.6
Financing activities	**738.0**	151.3	176.3
Investing activities	**(1,014.4)**	(126.5)	(91.2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(151.1)**	112.7	112.7
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**344.5**		231.8
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 193.4**		344.5

a. Rental property depreciation – Rental properties are depreciated using the sinking fund method, whereas under U.S. GAAP, rental properties are depreciated on a straight-line basis. In recomputing depreciation on a straight-line basis, an estimated salvage value of 5% of building cost is used and a "half year" convention is applied to additions. The additional depreciation comprised $11.2 million (1996 – $7.1 million) for Canadian properties and $36.5 million (1996 – $13.7 million) for U.S. properties. For 1996, on a pro forma basis, the additional depreciation comprised $12.5 million for Canadian properties and $24.3 million for U.S. properties.

b. Loss on early debt retirement – Under U.S. GAAP, prepayment premiums for the early retirement of debt are considered extraordinary items. Under Canadian GAAP, such items are included in income from continuing operations.

c. Change in accounting policy – Under U.S. GAAP, the cumulative effect of the change in method of accounting for the 3¼% Exchangeable Debentures (see Note 7) would be charged to 1996 net income. For Canadian GAAP, the change in method has been applied retroactively, resulting in a restatement of prior year amounts.

d. Investment in Barrick – For U.S. GAAP purposes, the investment in Barrick which, effective December 31, 1996, is accounted for on the cost basis, is considered an investment "available for sale" and is required to be carried at market value. The quoted market value for the investment was approximately $1.1 billion at December 31, 1997 (1996 – $1.7 billion), resulting in an increase in shareholders' equity of $324.5 million (1996 – $716.5 million), net of a deferred tax liability of $161.7 million (1996 – $358.5 million).

e. Deferred income taxes – Under Canadian GAAP, the deferral method of accounting for income taxes is followed. U.S. GAAP requires the liability method of accounting for income taxes.

In addition, companies in the U.S. that allocate fair value to their assets and liabilities after a purchase are required to identify and record separately the deferred taxes relating to differences between the accounting and the tax bases of assets and liabilities. In Canada such differences are taken into account in determining values.

Under Canadian GAAP, the Corporation has included $23.1 million related to the utilization of the benefit of tax losses in continuing operations. Under U.S. GAAP, this amount is included in income from discontinued operations.

During the year, the Corporation executed tax restructurings which resulted in a reduction of the deferred tax liability, related to its investment in Barrick, in the amount of $71.4 million. This reduction in the deferred tax liability is recognized in income in 1997 under U.S. GAAP and will be recognized as part of the gain on sale of the unencumbered investment in Barrick in 1998 under Canadian GAAP.

The deferred tax assets (liabilities) of the Corporation under U.S. GAAP are as follows:

		1997	1996
CANADA			
Financing and other charges	$	**52.9**	54.2
Operating and capital losses		**83.1**	79.6
Investments and properties		**(279.0)**	(547.2)
		(143.0)	(413.4)
Less: Valuation allowance		**127.0**	124.8
		(270.0)	(538.2)
UNITED STATES			
Operating losses		**126.5**	161.9
Properties and related assets		**(188.7)**	(217.7)
		(62.2)	(55.8)
	$	**(332.2)**	(594.0)

f. Proportionate consolidation – The accounts of all incorporated and unincorporated joint ventures and partnerships are proportionately consolidated according to the Corporation's ownership interest. Under U.S. GAAP, proportionate consolidation is not permitted for joint ventures and the cost, equity or full consolidation methods of accounting must be followed, as appropriate. As permitted by the United States Securities and Exchange Commission, the effect of this difference in accounting principles is not reflected above.

15. Differences from United States Accounting Principles (cont'd)

g. Accounting for stock options (see Note 9) – The Corporation accounts for its stock compensation using the intrinsic value method. Effective in 1996, U.S. GAAP requires companies that follow this method to disclose the cost of stock compensation awards at their fair value, at the date the award is granted. The weighted average fair value of the options issued by the Corporation during 1997 was $7.62 per option (1996 – $5.10 per option) based on a Black-Scholes model using the following assumptions: a four-year expected term; a 28% to 37% expected volatility (1996 – 19% to 22%); an expected dividend consistent with the current year actual dividend per share; and an expected interest rate of 5.1% to 5.9% (1996 – 5.1% to 8.2%). Under U.S. GAAP, the cost of stock option compensation for the period ending December 31, 1997 would be $8.6 million (1996 – $3.6 million). This would result in a net income of $79.1 million or $0.54 per share as at December 31, 1997 (1996 – net loss of $10.1 million or $0.09 per share). This disclosure of the effect on net income of the fair market value of stock options is subject to transitional rules that reduce the relationship between historical and future results.

h. Recent accounting pronouncements – In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 128 "Earnings Per Share" effective for fiscal periods ending after December 15, 1997. The Corporation has adopted this standard for the current year and is required to apply this standard retrospectively, which results in the restatement of earnings per share on both a basic and a fully diluted basis. As reported in the prior year, loss from continuing operations was $0.24 per share and net loss was $0.06 per share on a primary and fully diluted basis. Pro forma 1996 loss from continuing operations was $0.07 per share and net income was $0.08 per share on both a primary and a fully diluted basis.

In June 1997, the FASB issued Statement of Financial Accounting Standard No. 130 "Reporting Comprehensive Income." This standard is applicable for the Corporation's 1998 fiscal year. It is currently anticipated that comprehensive income will include the unrealized gain on the Corporation's "available for sale" investment and the foreign currency translation adjustment.

In June 1997, the FASB issued Statement of Financial Accounting Standard No. 131 "Disclosures about Segments of an Enterprise and Related Information." This standard is applicable for the Corporation's 1998 fiscal year, and currently its impact, if any, has not been determined.

Management's Responsibility for Financial Information

The Corporation's consolidated financial statements and all of the data included in this annual report have been prepared by and are the responsibility of the Board of Directors and management of the Corporation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information.

The Corporation has developed and maintains a system of internal accounting controls in order to assure, on a reasonable and cost effective basis, the reliability of its financial information. The system is monitored by the Corporation's internal auditor and reviewed by the Audit Committee of the Board of Directors. The Corporation's internal auditor evaluates and reports on the effectiveness of the control system both to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by Coopers & Lybrand, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

Auditors' Report

To the Shareholders of TrizecHahn Corporation

We have audited the consolidated balance sheets of TrizecHahn Corporation as at December 31, 1997 and 1996 and the consolidated statements of income, retained earnings, cash flows and cash flow from real estate operations for each of the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in Canada.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

Toronto, Canada

February 3, 1998
(except for Note 2b, which is as at February 9, 1998)

Shareholder Information

Stock Exchange Listings
New York
Toronto
Montreal

Trading Symbol
TZH

Index Listings
TSE 300
TSE 100
TSE Real Estate Index
Wilshire Real Estate Securities Index

Shares (millions)

Outstanding at December 31, 1997	
Subordinate Voting	145.3
Multiple Voting	7.5
Total	152.8
Weighted average	
Basic	147.7
Fully diluted (net income)	150.0
Fully diluted (FFO)	165.2

Closing Price of Shares

At December 31, 1997	
New York Stock Exchange	U.S.$23.19
The Toronto Stock Exchange	C$33.40

Share Trading Information
The principal markets for the Corporation's Subordinate Voting Shares are the New York Stock Exchange and The Toronto Stock Exchange. There is no established public trading market for the Corporation's Multiple Voting Shares.

	New York Stock Exchange			The Toronto Stock Exchange		
1997	Share Volume (millions)	High	Low	Share Volume (millions)	High	Low
First	14.0	U.S.$24.88	U.S.$21.38	15.5	C$33.50	C$29.10
Second	13.4	22.88	20.00	17.7	32.10	27.85
Third	14.8	25.81	20.75	16.9	37.80	28.75
Fourth	7.9	27.56	22.25	11.2	35.90	32.20
For the year	50.1	27.56	20.00	61.3	37.80	27.85
1996						
First	20.9	U.S.$14.88	U.S.$13.50	4.7	C$20.70	C$18.10
Second	13.3	15.25	13.75	3.7	20.75	18.85
Third	20.2	16.38	12.13	15.4	22.30	17.00
Fourth	14.6	22.00	17.88	20.8	30.15	21.50
For the year	79.3	22.00	13.75	45.7	30.15	21.50

Class A Warrants

Holders of the Corporation's Class A Warrants are entitled to acquire, upon compliance with the conditions set forth in the Warrant Indenture, 0.58 of a Subordinate Voting Share for each Warrant, at the exercise price of C$14.14. The Warrants are exercisable until July 26, 1999.

The Warrants are listed on the New York (TZH.WS), Toronto (TZH.WT.A) and Montreal stock exchanges.

1997	Volume (millions)	High	Low	Close
New York Stock Exchange	2.1	U.S.$6.50	U.S.$3.50	U.S.$4.50
The Toronto Stock Exchange	19.2	C$8.85	C$4.77	C$6.65

Warrants outstanding, at December 31, 1997 (millions): 14.0

Note: These Warrants were originally issued by Trizec Corporation Ltd. and were converted on a one-for-one basis into TrizecHahn Corporation Class A Warrants as a result of the merger.

Form 40-F

The annual report on Form 40-F is filed with the United States Securities and Exchange Commission. This report will be made available to shareholders, without charge, upon written request to the Corporate Secretary of TrizecHahn.

Transfer Agent and Registrar

Investors are encouraged to contact our Transfer Agent and Registrar, CIBC Mellon Trust Company, for information regarding their security holdings at

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Postal Station
Toronto, Ontario M5C 2W9
Answerline™: (416) 643-5500
Toll free throughout North America:
(800) 387-0825
E-mail: inquiries@cibcmellon.ca

Annual Meeting

The Annual Meeting of Shareholders will be held on Thursday, May 14, 1998 at 11:00 a.m. in the Ballroom, Royal York Hotel, 100 Front Street West, Toronto, Ontario.

Investor Relations

BCE Place, 181 Bay Street
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Fax: (416) 364-1503
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Web site: www.trizechahn.com

Contact:

Ross A. Brennan
Vice President, Investor Relations

Directors and Officers

Directors

Howard L. Beck, Q.C. (a)
Toronto, Ontario
Chairman
Philip Services Corp.

C. William D. Birchall (b) (c)
Toronto, Ontario
Vice Chairman
TrizecHahn Corporation

Dieter Bock
London, England
Vice Chairman
TrizecHahn Corporation

Willard J. L'Heureux
Toronto, Ontario
Managing Director, International
TrizecHahn Corporation

The Right Honourable Brian Mulroney (b)
Montreal, Quebec
Senior Partner
Ogilvy Renault

Peter Munk (c)
Toronto, Ontario
Chairman and Chief Executive Officer
TrizecHahn Corporation

Jeremiah W. O'Connor, Jr. (c)
Bronxville, New York
Chairman and Chief Executive Officer
The O'Connor Group

Karl Otto Pöhl
Frankfurt, Germany
Partner
Sal. Oppenheim jr. & Cie.

Thomas S. Quinn, III (a) (c)
New York, New York
Managing Director
J.P. Morgan Capital Corporation

Joseph L. Rotman (a)
Toronto, Ontario
Chairman and Chief Executive Officer
Clairvest Group Inc.

Glenn J. Rufrano (b) (c)
Bellmore, New York
President and Chief Operating Officer
The O'Connor Group

Gregory C. Wilkins (c)
Toronto, Ontario
President and Chief Operating Officer
TrizecHahn Corporation

(a) Member of the Audit Committee
(b) Member of the Compensation, Nominating and Corporate Governance Committee
(c) Member of the Executive Committee

Corporate Governance

TrizecHahn considers effective corporate governance to be important to its success. The Corporation's approach to corporate governance is set out in its Management Information Circular.

Officers

Peter Munk
Chairman and Chief Executive Officer

C. William D. Birchall
Vice Chairman

Dieter Bock
Vice Chairman

Gregory C. Wilkins
President and Chief Operating Officer

Willard J. L'Heureux
Managing Director, International

Richard J. Steets
Executive Vice President
Corporate Development

Gregory W. Sullivan
Executive Vice President and
Chief Financial Officer

J. Douglas Bradley
Managing Director,
Corporate Development

Robin A. Campbell
Senior Vice President,
General Counsel

Colin J. Chapin
Senior Vice President, Taxation

Luigi L. Favit
Senior Vice President and Controller

Norman W. V. Purves
Senior Vice President, Development

Robert B. Wickham
Senior Vice President
and Treasurer

Peter M. Ballon
Vice President, Corporate Development

Ross A. Brennan
Vice President, Investor Relations

Theodore W. Chivers
Vice President, Human Resources

Tabb O. Davis
Vice President,
Corporate Communications

Sari L. Diamond
Vice President and
Corporate Secretary

James Hutchison
Vice President, Taxation

Corporate Information

TrizecHahn Corporation

BCE Place
181 Bay Street, Suite 3900
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Telephone: (416) 361-7200

Office Operations

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Telephone: (312) 466-3000

Casey R. Wold
President

David W. Clapp
Executive Vice President and
Chief Operating Officer

Brian K. Lipson
Executive Vice President

Retail Center Operations

TrizecHahn Centers Inc.
4350 La Jolla Village Drive
Suite 400
San Diego, California 92122-1233
Telephone: (619) 546-1001

W. "Joe" Larsen
President and Chief Operating Officer

Upkar S. Arora
Executive Vice President and
Chief Financial Officer

Development

TrizecHahn Development Company
4350 La Jolla Village Drive
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San Diego, California 92122-1233
Telephone: (619) 546-1001

Lee H. Wagman
President

Andrew A.L. Blair
Executive Vice President and
Chief Operating Officer

European Operations

TrizecHahn Europe (Properties)
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Schwindstraße 10
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Ronald Hetzke
Managing Director

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Telephone: (361) 302-9200

Dr. Ferenc Bartha
Managing Director

Asian Operations

TrizecHahn Asia-Pacific Limited
Level 16, Shiroyama
JT Mori Building
4-3-1 Toranomon, Minato-ku
Tokyo 105, Japan
Telephone: (81) 3-5403-4760

Kenneth Munkacy
Managing Director

Please visit our corporate web site at www.trizechahn.com

TrizecHahn
CORPORATION

WWW.TRIZECHAHN.COM